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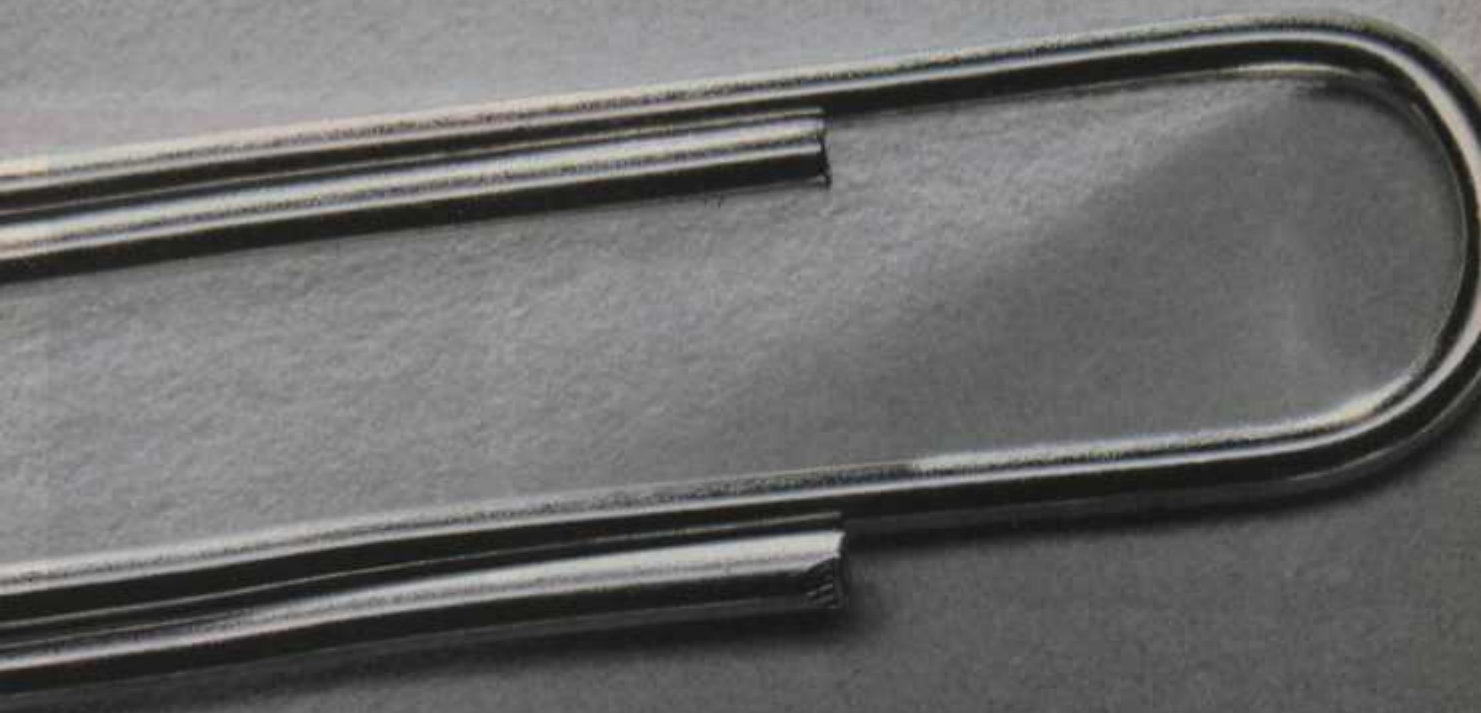


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PHOTO: SLACK BROWN

President Bush honors Raymond and Elizabeth Marlow at a Baldrige Award ceremony for Dallas-based Marlow Industries, one of the growing number of firms employing the principles of Total Quality Management, or TQM. Cover Story, Page 22.



PHOTO: LAWRENCE BORDO

Recruiting-firm founder Melba Duncan with managing partner Max Rodriguez. Women In Business, Page 65.

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WHERE I STAND

4 On A Balanced Budget

Your responses to this poll will be provided to leaders of Congress and the Bush administration as they debate bills to require a balanced federal budget.

Editor's Note

"As Quality Goes Up, So Does Productivity"

An article in *Nation's Business* 10 years ago described how W. Edwards Deming had helped transform "Made in Japan" from "a synonym for junk to a hallmark of quality."

He had done so by introducing Japanese managers to quality control. "As quality goes up, so does productivity," Deming said in the article. "Consider the impact on overall levels of productivity if everyone and every machine in your company performed properly the first time [and] every time."

American managers have indeed considered that prospect, and the result is the still-growing Total Quality Management movement, the subject of our cover story this month.

In his research for this article, Senior Editor Michael Barrier interviewed the nation's top experts on TQM, attended their seminars, and visited businesses that have applied quality-management principles.

His report, beginning on Page 22, not only details the reasons why quality management is important to your company, no matter what size it is, but also shows you how you can start applying TQM.



ILLUSTRATION: DEBORAH J. HUMPHRIES

Where I Stand polls that we have run recently on Congress produced strong business criticism of our national legislature. But there may be a silver lining in that cloud of antipathy. Anxious to regain voter approval, Congress is open to reforms it has routinely rejected. Among other

things, the business campaign for a balanced-budget/tax-limitation amendment has new life. Details appear on Page 21. If you want decision makers in Washington to be aware of your views, mail or fax the Where I Stand questionnaire on the following page. We'll get the results to the White House and Congress.

Robert T. Gray
Editor



PHOTO: DENNIS BRACK—BLACK STAR

Senior Editor Barrier at a TQM seminar.



Hand-held computers are helping business people keep and check records in the field. Technology, Page 49.

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Cover Design: Hans A. Baum

Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20002-2090. Tel. (202) 463-5650 (editorial). Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 512-1440. Copyright © 1992 by the United States Chamber of Commerce. All rights reserved. Subscription prices: United States and possessions: one year, \$22; two years, \$35; three years, \$40. For Canadian and other foreign subscribers, add \$20 per year. Printed in U.S.A. Second class postage paid at Washington, D.C., and additional mailing offices. POSTMASTER: Send address changes to *Nation's Business*, 4940 Nicholson Court, Kensington, Md. 20895. To inquire about your subscription, or to make a change of address, please call 1-800-638-6642, or in Maryland, 1-800-252-1450. Photocopy Permission: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 21 Congress St., Salem, Mass. 01970, to photocopy any article herein for a fee of \$1.50 per copy of each article. Send payment to the CCC. Copying without express permission of *Nation's Business* is prohibited. Address requests for bulk reprints to *Nation's Business* Reprints, 1615 H Street, N.W., Washington, D.C. 20002-2090, or call (202) 463-5677. ISSN 0028-047X/92\$2.50.

Where I Stand

On A Balanced Budget

Results of this poll will be provided to leaders of Congress and the Bush administration as they debate bills to require a balanced federal budget.

Send the attached postage-paid response card. Or you can circle your answers, fill out the coupon below right, and fax this page to (202) 463-5636.

See related story, Page 21.

1.

Should the U.S. Constitution be amended to require the president and Congress to balance the annual federal budget?

1. Yes
2. No
3. Undecided

2.

If you answered "yes" to No. 1, do you think the budget should be balanced primarily by spending restraint, tax increases, or both?

1. Spending restraint
2. Tax increases
3. Both

3.

Should a balanced-budget amendment include a strong limit (such as a requirement for a 60 percent majority vote of both houses of Congress) on Congress' ability to raise taxes?

1. Yes
2. No
3. Undecided

4.

Would you favor a balanced-budget amendment that does not include a strong limit on Congress' ability to raise taxes?

1. Yes
2. No
3. Undecided

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Letters

Force Japan's Market To Open

Calling for more negotiations with Japan to open up that market may not be enough ["Building The American Future," March Cover Story]. Years of negotiation have failed to stem Japan's insidious quest of profit, making it clear the Japanese are more inclined to decide by themselves whether to import more or less.

By regulating imports ourselves, we'll bring pressure on them to drop trade barriers.

*Donald J. Aldrich
Fair Oaks, Calif.*

Two Proposals

Your premise is flawed. It implies that it's us against the world. In fact, multinational corporations are not based in any

particular country and will be increasingly less nationalistic.

The best thing for business enterprise in the U.S. would be a big tax cut.

The best thing for the citizens of the U.S. would be a reduced governmental presence.

*E. Paul Naberhaus
Cincinnati*



Focus On Creating Jobs At Home

The premise of the February Entrepreneur's Notebook, "Always Do Whatever Is Most Productive," is sound, but I am displeased at what comes from Ernesto Bravo's venture. Basically he is taking jobs and payroll from the American worker and exporting them to the low wages and no benefits of Mexico for uncaring, shortsighted American manufacturers.

Stick to American success stories that

all of us entrepreneurs can learn from. You should support the American worker, not encourage the continuance of whole-sale factory closings and loss of jobs here at home.

*Keith E. Davis
Electrical Contracting
Raleigh, N.C.*

Put A Halt To Frivolous Discrimination Suits

About "How To Avoid Discrimination Suits" [March]:

I find it laudable that our president and representatives wish to protect the worker against discrimination and laughable that they didn't have the sense to put into place a check to stop suits without merit.

A simple bond to cover the cost to government and the employer would suffice if such a suit proved to be false.

*Mitchell C. Radcliff
Vice President
Tipaloy, Inc.
Detroit*

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LETTERS

Wrong Choice Of A Wrench For A Bolt

In your March cover story ["Building The American Future"], your picture on Page 19 showed a worker using a pipe wrench on a hex head bolt. [See the photo, at right.] Our maintenance workers would never do that.

Wayne S. Kahrs

Human Resources Manager

Baxter Diagnostics Inc.

Muskegon, Mich.

Interesting, But . . .

The article is interesting, but the workman is using a Stillson wrench to tighten a nut. No competent mechanic in his right mind will use anything but a socket wrench or other appropriate wrench.

Abraham Katz

Cambridge, Mass.

Check With Your State On OSHA

In your February cover story ["Protecting OSHA From 'Reform'"], you failed to mention that some states have a plan that is equal to or more effective than federal rules. Employers should check their respective states for differences with federal regulations on safety.

Chris Rush

Fernridge Dairy Queen

Veneta, Ore.

Credit Reports Are Released Under Proper Circumstances

In the It's Your Money section for March, you quote me as saying consumers can get a free copy of their credit report if their application for credit has been "held up." That is not correct.

Under the Fair Credit Reporting Act, consumers are entitled to a free copy of their credit report only if they have been denied credit in whole or in part due to their credit report.

They must request the report within 30 days of receipt of notice of the denial. The law applies only to denials of credit.

David Medine

Associate Director for Credit Practices

Bureau of Consumer Protection

Federal Trade Commission

Washington, D.C.

A Better Answer For Our Widow

In the Family Business case study for March, "A Widow's Dilemma," the two advisers overlooked a critical regulation. Regulation B, from the Federal Reserve Board, provides that only those spouses who have an active or at least a passive role as principal in a business may be



PHOTO: GREGORY ANTHE-FOLIO, INC.

Wrong tool, say sharp-eyed readers.

required to sign a loan guaranty.

Other aspects of that regulation lead us to advise that the widow not pay the loan guaranty and use the improper loan guaranty as leverage with the bank for refinancing or better terms or to sell the business to the sons or employees.

Let the employees and sons try to correct the "sins of the father."

Harold A. Feder

Feder, Morris, Tamblyn & Goldstein

Denver

There's More To Be Said On Automated Accounting

Thank you for "Not Just For The Numbers" [Small-Business Computing, January]. It's good to let people know about accounting programs and what they do.

I think it's important to explain the advantages of implementing the software, rather than just tell what the software will do. Most companies, especially small firms, don't see the advantages of switching to computers when they are satisfied with their traditional methods.

Lenette O'Brien

Bellingham, Wash.

Brokerage Account Coverage: A Clarification

Your article on Securities Investor Protector Corp. (SIPC) coverage of brokerage accounts ["What Happens To Your Money If Your Broker Goes Broke?"] It's Your Money, February) was accurate though misleading. Excess SIPC coverage policies generally have a cap on available insurance per firm. Hence, \$10 million in excess coverage spread over the many accounts of even a medium-sized firm may mean that each account is

actually covered for much less than the \$1 million that is advertised.

Standard and excess coverage are used to protect investors whose securities are used in the daily running of their brokerage's business. The most common is using clients' securities as collateral on margin loans. In this case, if the firm went bankrupt, the loans would be called, and those securities would be sold to cover the loan balance. If the loan is larger than the SIPC coverage *per account*, the difference is what the investor loses.

The best insurance for an investor is to deal with a securities firm whose net capital position is large enough and whose corporate policy prohibits using customers' fully paid securities in running the business.

*Daniel R. LaMacchia
Vice President
Sweeney Cartwright & Co.
Columbus, Ohio*

Employees Should Pay Their Own Way

The current debate over health care [Benefits Update, February] has only one solution: Employees must accept the responsibility to provide their own health care. This way I am in control of my health care, and I will not abuse my health care.

When employees are not responsible for purchasing health care, we will continue being burdened with inefficient management in the health-care industry.

*Frederick D. Pfau
Freeport, Minn.*

This CPA Resents The Implication

"It's cheaper than a CPA," says Leonard Magazine in your article on tax software [Small-Business Computing, March]. It's mind-boggling to think that a successful business owner would prepare a 45-to-50-page income-tax return for his several businesses without using the services of a professional tax adviser. Surely his time is more valuable practicing his craft.

The tax laws are complicated. Business people should not use a fill-in-the-box program. It's too risky.

I chuckled when I finished the article and thought about the automotive-filter television commercial: "You can pay me now or pay me later."

*Sidney Weiss, President
Sidney Weiss Inc., CPA
Woodland Hills, Calif.*

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Entrepreneur's Notebook

By Irwin Goldberg

Sitting Pretty, Working Better

If there's one thing I learned during my 31 years in executive marketing positions for major corporations, it's how to identify market-driven opportunities. And this ability enabled me to start my own business. In July 1991, I founded SBTB Ergonics, a distributor of ergonomic products designed for computer workstations and the office. (SBTB stands for Selling Better To Business.)

Ergonomics is the art and science of designing the workplace to fit the worker, and I think the market for these products is still in its infancy.

But however bold my convictions are about the market and its potential, I must admit I was prodded to take this mid-career leap.

For three decades I was a senior corporate executive responsible for multimillion-dollar sales territories. And like thousands of other middle-aged executives, I became a casualty of a management layoff that forced me to take a hard look at whether I wanted to work again for another company or start my own business.

I opted for the latter, having some basic notions about possible growth markets. In doing so, I asked myself questions I felt were necessary before I could move ahead: Is there a market, and what is its outlook? Is there competition, and with whom? Who are the manufacturers? What is the method of distribution? What are the price points and necessary margins to sustain growth? What investment would be necessary?

Irwin Goldberg is the founder and president of SBTB Ergonics in Costa Mesa, Calif.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20002-2000.

Shortly before I was dismissed by my employer, a gentleman had come into our office to outfit our computer workstations with wrist rests. Those foam supports you can lean your wrists on while typing are perhaps the most familiar ergonomic product. Together with other ergonomic products such as lumbar and foot supports, anti-glare computer-screen filters, and document holders, these items really

did—as claimed—help reduce stress and strain for workers doing repetitive tasks. Not only did their productivity increase, but also the company's liability for workers' compensation declined.

After I was laid off, I immersed myself in research on workplace safety and products for video display terminals and their peripheral equipment. I called human-resources directors, health and safety officials, and other decision makers on hazard management in the workplace.

It became clear that companies were taking aggressive action to reduce rising workers' compensation claims. This supported my hunch.

The person I had seen at my office that day turned

out to be the manufacturer of the wrist rests and other ergonomic products. He served as sales representative, demonstrator, and installer.

After several meetings, we formed an agreement whereby I would be sole distributor, earning worldwide rights and first right of refusal for existing and newly developed products. This was the beginning of SBTB Ergonics. His company concentrated on development and production.

My idea was division of labor, which meant focus on what you do best.

From the outset, it appeared that the lack of a sales and distribution network would be a hindrance. But the dilemma enabled me to build a strategy from the ground up, and I acted on another hunch.

What of the thousands of middle-aged

former executives like myself who have lost jobs because of corporate downsizing? If presented with a picture of my firm's market, would they use their skills to develop similar markets in their own geographical territories? My guess was that they would relish a ground-floor opportunity for independence and quickly would tap into the financial potential.

The most prudent way to expedite the sale of SBTB's products would be to sell territories to agents and sales reps. I established a program in which our agents, for a minimum product commitment, have sole rights to sales in their territories. This arrangement eliminated the lengthy and costly start-up time it takes to get products to the market.

I didn't want to be burdened by overhead from staff payroll, sales commissions, a fancy office, and a long-term lease—expenses that have proved to be the downfall of so many other start-up firms. I've accomplished that goal by recruiting agents and selling them a training program on how to market the products, and by providing them with collateral support, marketing services, and the products to sell.

From concept to the time SBTB sold its first agent territory took six months. Given the current market situation and the availability of seasoned independent agents, I feel my company stands a good chance of meeting its goals and reaching \$1 million in sales in the year ahead. **NE**



PHOTO: SEBAST BARTHOLDINSEN

Irwin Goldberg: A former corporate executive finds a small-business niche.

What I Learned

I started as my firm's sole employee. But this simplicity and lack of many-layered management does provide rigors. Naturally, it's in my firm's best interest to assist our agents and sales reps in whatever ways possible, so I'm on call virtually 24 hours a day.


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THE POWER OF INTELLIGENT ENGINEERING.

Dateline: Washington

Business news in brief from the nation's capital.

By Albert G. Holzinger

COST CONTROL

Postal Service Offering Money-Saving Advice

The U.S. Postal Service plans to have Business Centers operating nationwide by the end of July.

The centers, the first of which opened about a year ago, offer individual mail-preparation counseling to small and mid-sized business customers. The Postal Service estimates it has 7.6 million customers in that category.

Significant discounts are available even to small mailers who address and sort letters, advertisements, catalogs, and periodicals to make them compatible with the Postal Service's ongoing automation program.

Often, counseling can point to a few simple and inexpensive steps that a firm can take to achieve compatibility, says a postal spokesman in Washington, D.C.

At a postal Business Center, "we can give one-on-one attention to customers,"



PHOTO: T. MICHAEL KEZA

Manager J. Michael Fuller, left, explains Postal Business Center operations in Fairfax, Va.

says J. Michael Fuller, manager of the center in Fairfax, Va. "This is a totally different environment from what they're used to when dealing with the Postal Service. . . . Response has been great."

For the location of the Business Center nearest you, call your local postmaster.

INTERNATIONAL TRADE

U.S. Policies Accused Of Eroding Competitiveness

U.S. government policies are largely to blame for the slow erosion of America's competitiveness in some industries, but "our national leadership has yet to even acknowledge the scope or the seriousness of the challenge," according to the recent report of the Competitiveness Policy Council.

The council, which includes business and union leaders, government officials, and economists, was created under the omnibus trade act of 1988 and has been studying U.S. competitiveness since.

Many recommendations of the council mirror priority items in the 1992 *National Business Agenda* of the U.S. Chamber of Commerce. For example, both recommend overhaul of education and job-training programs, reform of the health-care system to increase availability while lowering costs, and revamping the tax code to encourage savings and investment rather than consumption and debt.

The council recommended that the president issue "competitiveness impact

statements" with each bill the administration submits to Congress to foster concern for competitiveness in the same way that environmental-impact statements heighten environmental awareness.

U.S. Regains Top Spot Among Goods Exporters

If the U.S. is indeed losing its competitive edge, it's news to American manufacturing exporters.

The U.S. passed Germany as the world's leading exporter of goods last year, according to the 1991 annual report of the General Agreement on Tariffs and Trade, the international body that oversees global commerce.

U.S. manufactured exports rose by 7.5 percent last year, to \$422 billion, while Germany's declined 4.5 percent, to \$403 billion. Japan, France, and Britain rounded out the top five exporting nations.

Growth of overall world trade slowed to 3 percent in 1991, its smallest increase since 1983; the figure was down from growth of 5 percent in 1990.

ECONOMIC POLICY

Congress Rejects Efforts To Boost Domestic Spending

At the urging of business, Congress has rejected efforts to spend the remainder of the so-called peace dividend on domestic programs.

Increased spending for nutrition, transit, education, and other domestic programs already has consumed about \$414 billion of the \$557 billion in defense savings expected to be achieved from 1990 through 1997, according to the Congressional Budget Office. The savings are resulting from the scaling down of the military in response to the end of the Cold War.

Both the House and the Senate rejected proposals by Democratic leaders to transfer additional military savings to domestic spending accounts. Before the congressional votes, business representatives in Washington registered strong disapproval of the proposed shift.

"With federal spending already at record levels, now is not the time to allow additional domestic discretionary spending," Donald J. Kroes, vice president of legislative and public affairs of the U.S. Chamber of Commerce, wrote Congress. "Indeed, the peace dividend would be best spent on tax cuts aimed at encouraging new investment and restoring the long-term health of the economy."

FINANCE

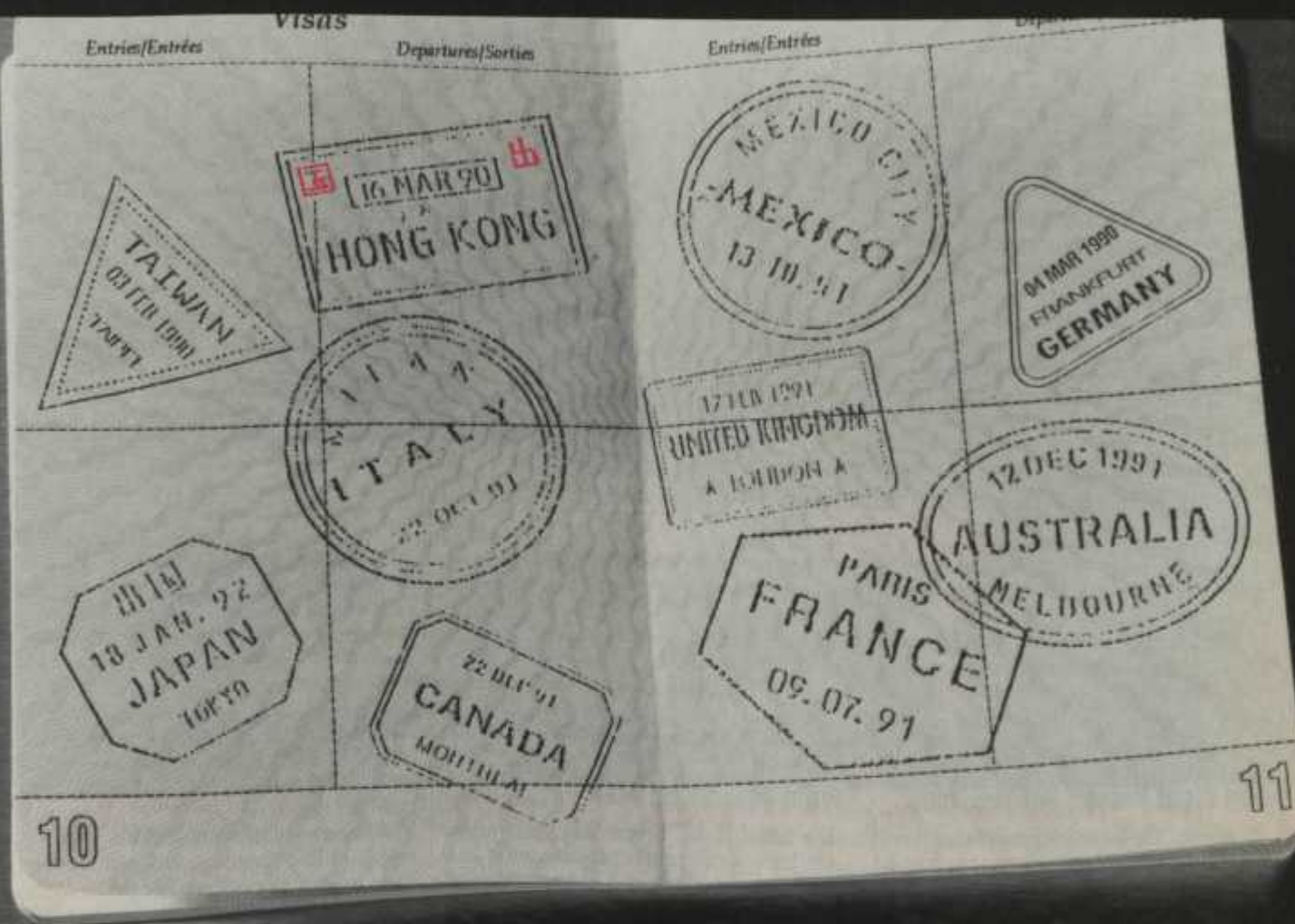
House Committee Backs Credit Crunch Relief

The small-business credit crunch could worsen by summer's end unless Congress enacts a bill approved recently by the House Small Business Committee.

The legislation would provide up to \$5 billion in small-business loan guarantees during fiscal 1992, \$6 billion in fiscal 1993, and \$7 billion in fiscal 1994 under the Small Business Administration's so-called 7(a) program. The SBA is now authorized to guarantee only \$3.5 billion in loans this fiscal year under that program, but loan-guarantee requests are expected to total about 25 percent more than that, says Rep. John J. LaFalce, D-N.Y., chairman of the House committee.

The timing for action on the House bill—H.R. 4111—is uncertain, and comparable legislation has yet to be introduced in the Senate.

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Managing Your Small Business

Keeping the spark in your staff; solving partnership conflicts; getting the most from your sales team.

By Bradford McKee

HUMAN RESOURCES

A Team Is As Strong As Its Weakest Link

Willis Berrios' management philosophy says that employees' individual growth and self-discipline have a lot to do with how they perform their jobs. So Berrios encourages his employees to take their personal development seriously.

At his office at Berrios Construction Co., in San Francisco, Berrios keeps an audio-tape library on such topics as self-motivation, history, English language, writing, public speaking, and getting rich. He urges all 30 of his employees to listen to the tapes in their cars as they commute to and from work.

Berrios also boosts self-discipline. He regularly gives readings to his staff on how to manage time and energy better.



PHOTO: ELMOR WUE SCOTT

Willis Berrios, of Berrios Construction Co., leads his staff in a session on time management.

"When we have control of ourselves, we become better team members," Berrios says.

For example, one afternoon Berrios noted that the hectic tempo of the office had raised his staff's stress to the point

that it was interfering with the smooth flow of work.

So he called an impromptu session on taking control of work time. He says the meeting helped by making everybody stop what they were doing and rethink the way they were trying to get their jobs done.

Berrios also recognizes that personal problems can become company problems if they preoccupy the employee. He urges the people in his company to take plenty of "private and undisturbed time" for themselves away from work.

In fact, at their disposal for this reflective time—just for the asking—is a 10-acre mountain retreat owned by Berrios Construction. From time to time, he says, every hard-working employee needs "a day off in the mountains to get a breather."

RECRUITING

Creativity Can Help You Find The Right Person For The Job

To attract the best job candidates, small and midsize firms might want to adopt a "marketing" approach to recruiting, says a Louisville, Ky., management consultant.

Catherine D. Fyock, president of Innovative Management Concepts, says recruiting is becoming more "creative" in smaller firms, making it easier for these firms to attract the right person for the job. In the past, searching for recruits was typically more passive, and thus it generally turned up only candidates who were "readily available," says Fyock.

The passive approach may work fine if the "perfect employee" for the position you're trying to fill is laid off and searching for a job, she says. But you're more likely to attract the best talent if "they hear about you before they start thinking about new employment."

Fyock suggests such strategies as direct mail and "tele-recruiting" to reach candidates in targeted areas of expertise; some trade groups sell access to specific professional databases. To attract prospects, she says, small firms can show flexibility in various ways, such as scheduling interviews after business hours. ■

SALES

Five Ways To Get The Most From Your Sales Staff

One salesperson performing below par can hurt your profits significantly, but there are ways you can keep your sales staff in high gear, says Greg Lousig-Nont. This sales-development consultant, who heads his own firm in Las Vegas, offers these tips to help you keep your sales staff performing:

- Set goals—short-term, midterm, and long-term—when you first hire a new salesperson, and put the goals in writing. Periodically review and check progress on the goals. Setting goals provides "common ground" for later reviews, says Lousig-Nont.

- Require daily reports on time spent. Lousig-Nont says time management is a big pitfall of talented salespeople, who

become bored. Hold your salespeople to schedules, he says. "They need that control."

- Have weekly meetings. Give your top salespeople a chance to tell one another what worked in closing a big deal.

- Train continuously. All salespeople should have some kind of training at least once every two months, says Lousig-Nont. "It gets them back to basics and reminds them of the reason they became a salesperson in the first place."

- Have a contest. See who can bring in the most new business, says Lousig-Nont. This will get even the oldest-timer to come up with new accounts.

The smaller your staff, the more important it is to keep salespeople in top selling condition, says Lousig-Nont, because "your profit center is very tightly contained."

ORGANIZATION

Keeping Your Board Beyond Reproach

When selecting new directors for your company's board, try to rule out candidates who have conflicts of interest, says Roger H. Ford.

In his new book, the director of the

Center for Entrepreneurship at James Madison University, in Virginia, says conflict of interest can be hard to define and is always an uncomfortable subject in the board-selection process. But, he says, you must not ignore it.

Ford's book, *Boards of Directors and the Privately Owned Firm* (Quorum

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Books), discusses whether small firms should set up boards of directors, and how they should do so.

"Perception" of conflict of interest in a board member "is almost as bad as reality," Ford told *Nation's Business*. Obviously, however, "a competent director is going to know something about your industry," so you may walk a fine line. But if the person has a fiduciary or other responsibility to a competing company, it is best to pass over that individual, he says.

The easiest conflicts to spot are legal ones, Ford says. Many states, for example, bar anyone from serving on the boards of two banks.

Ethical issues, he says, are less straightforward. "What may not have any visible ramifications initially could put both [company and director] in a delicate situation" later, says Ford.

The people choosing board members "always need to recognize that conflict of interest is a possibility," and they need to bring it out. ■

CONTRACTING

Letters Of Credit May Substitute For Surety Bonds

Many small construction companies have a hard time securing required bonding, so federal agencies now may accept a letter of credit instead of bonding for work on federal projects.

In a letter to all federal agencies, Allan V. Burman, administrator of the Office of Federal Procurement Policy, authorized the use of letters of credit "in lieu of sureties" to "help achieve greater access by small disadvantaged businesses to federal construction contracts."

The procurement policy states that letters of credit from healthy banks may be used in place of both performance bonds and payment bonds but that a separate letter would be required for each type of bond.

Analysts' reactions to the policy are mixed.

Kitty T. Heller, president of Veribanc Inc., a bank-rating service in Wakefield, Mass., says the policy will "help considerably those contractors who are having trouble finding surety companies to handle their accounts" if they can find a bank that is willing to give them a letter of credit.

But obtaining the letter of credit is the major obstacle, says Russell F. Agosta, a construction-industry analyst with the Grant Thornton accounting firm, in Detroit.

"The small contractors aren't having a hell of a lot better experience getting letters of credit than they are getting surety bonds," Agosta says. "It's not because they're not available," he adds, but rather because underwriting requirements are too strict. ■

OWNERSHIP

Imperfect Partnerships: Vive La Difference!

Business partners in conflict over each other's personal traits and management style often conclude that a breakup is the only answer. But restoration of a good working relationship can be achieved with the cooperation of each party.

The key is identifying areas of agreement on how the company should be run and in recognizing that negatives that one

based at Chicago's O'Hare International Airport, grew rapidly from 1986 to 1990. However, Ryan and LeBeau, who were nearly strangers when they founded the firm, say they underestimated the closeness of a business partnership and had let it deteriorate.

"We have a lot of common attitudes about how a business should be run," says LeBeau. "And then there is the matter of style. . . ." Ryan says he is impulsive and intuitive and would become "impatient"

with LeBeau's more methodical, "plodding" way of working.

In time, says Ryan, "we found ourselves really disturbed with each other. The partnership was suffering, and we were going to end up splitting up. We wanted [the conflicts] stopped."

They called on Kenneth Kaye, a Chicago psychologist who counsels business partners. Kaye showed the two that in fact they had similar aims for the firm, but their "pretensions" were keeping each from trusting the other to try his way.

Kaye's help included "reframing" negative attitudes, he says. For example, "'plodding' is negative, but if we say

'careful' it sounds constructive," says Kaye, and "impulsive" can be viewed as "energetic." He also taught them to take time out when talk gets heated.

Says Ryan: "Now, if only Ed would just listen to everything I said and realize I was right about it. . . ." ■



Cargo-company partners Kenneth Ryan, left, and Edward LeBeau came to terms with their differences in style.

partner perceives in the other might actually be positives for the business.

Kenneth Ryan and Edward LeBeau are an example of how a sorely troubled business relationship can survive with sufficient maintenance. Their company, Airmax Inc., a cargo-management firm

ND TIPS

Workers' Comp Laws

The 1992 edition of the annual *Analysis of Workers' Compensation Laws* is available now from the U.S. Chamber of Commerce.

The guide contains comprehensive, up-to-date information on state workers' comp laws and indemnity benefit levels. It summarizes and compares the workers' comp laws of the 50 states, the District of Columbia, Puerto Rico, and the Canadian provinces.

A supplement to the analysis, which will be current through July 1, 1992, will be available in late July.

The analysis is \$15, and the supplement is \$7. Bulk rates are also available.

To order copies of either or both publications, send a check made payable to the U.S. Chamber of Commerce to Eric Reese Gamble, 1615 H Street, N.W., Washington, D.C. 20062-2000. To charge

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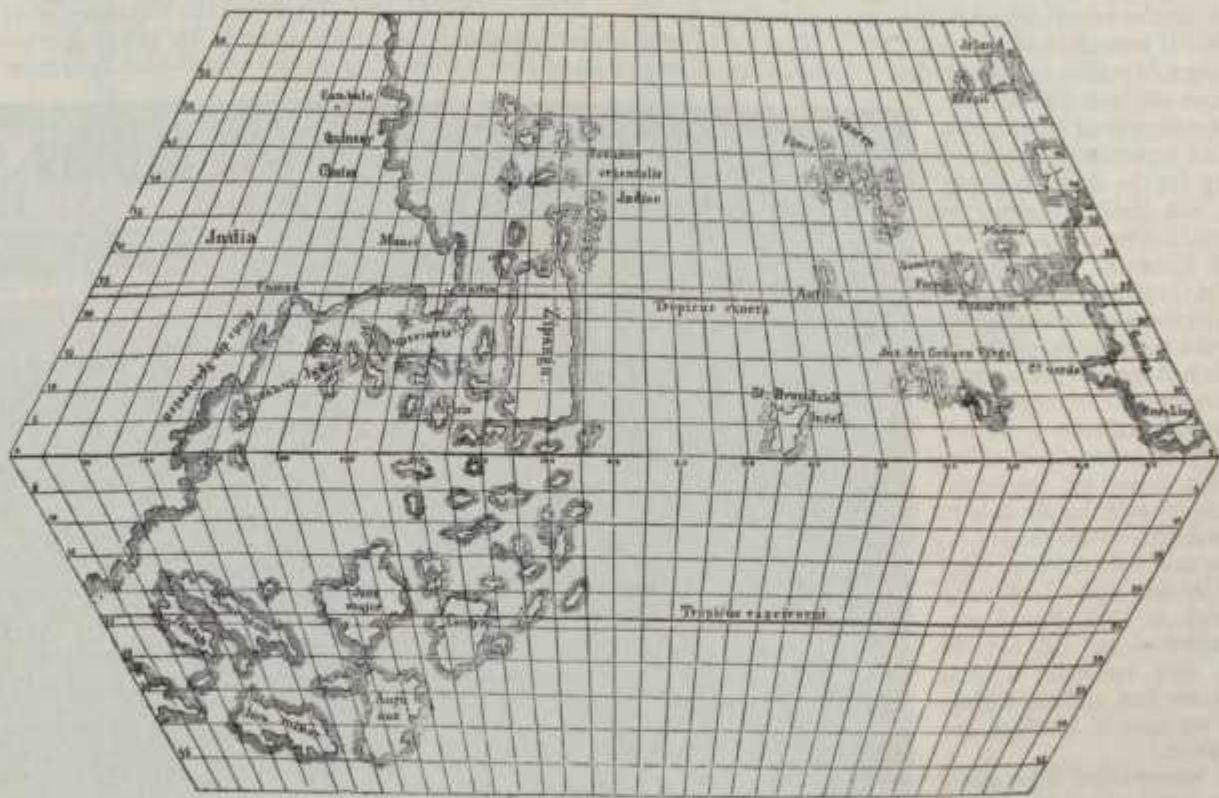
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Making It

Growing businesses share their experiences in creating and marketing new products and services.

The Handicap That Wasn't

By Roger Thompson

Fifteen years ago, Jan Powell wanted nothing more than a 9-to-5 clerical job. But no one would make her an offer. If someone had, she wouldn't be running a \$2 million company today.

On paper, she looked great: then age 26, a college grad with highest honors, an experienced executive secretary. On the strength of her resume, she lined up about 15 interviews. But no offers.

Powell knew the problem but couldn't do anything about it. She was still on the mend from a nearly fatal stroke three years earlier, in 1974. She had entered the hospital for treatment of a chronic stomach disorder and suffered a stroke, apparently as a side effect of her medication. Powell left the hospital unable to walk, barely able to speak, and with double vision.

By the time she graduated from North Carolina State University in Raleigh in 1977, Powell was much improved but still not 100 percent. She remained a little shaky on her feet, and she slightly slurred her speech. In short, she was disabled.

Some interviewers were downright insensitive to her limitations. "I couldn't type because of the stroke, but people asked me to take typing tests anyway," recalls Powell, whose physical disabilities are now just a memory. "The last time a guy asked me to take a typing test, I just broke down and cried."

In desperation, she volunteered to work for free in a friend's stationery store. She had to do something to feel worthwhile. Her prolonged illness and unfulfilled job search had badly eroded her self-confidence and had blunted her take-charge approach to life.

North Carolina entrepreneur Jan Powell's \$2 million business puts company logos on a wide variety of items.

But when the opportunity to make her own way came knocking, Powell knew she had to answer.

One day in 1979, a man walked into the stationery store and asked Powell where

he could buy 1,000 pencils with his company logo. She did a little research and found that he needed an advertising specialty company. Although Raleigh already had several such businesses, she was irresistibly attracted to the idea of starting her own.

Powell and the stationery store owner each put up \$1,000 and became co-owners of a new venture—Ads Infinitum. Powell



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MAKING IT

set up shop in her spare bedroom and ran the business single-handedly. She spent the initial \$2,000 on sample merchandise and specialty catalogs filled with hundreds of items available for imprinting a company's name, from coffee mugs and T-shirts to leather briefcases.

By her own admission, her first sales calls were disastrous. She took "no" for an answer too easily. But Powell refused to fail. She honed her sales pitch and slowly built a client list. When questions arose, she turned to her father-in-law, a successful businessman, for advice. "He helped a lot in the beginning," she recalls.

After three years of joint ownership, Powell bought out her partner's interest for \$3,000. The business began to pick up momentum.

The company passed the \$1 million mark in sales in 1989 and doubled that figure in 1991—despite the recession. Today, Ads Infinitum has nine employees, three of whom work in one-woman offices in cities across North Carolina.

And the company has grown beyond supplying custom-printed mugs, key chains, and the like. It now provides

companies with designers, photographers, and copy writers for developing promotional campaigns. It has won several advertising awards.

Powell takes pride in asserting that she built Ads Infinitum "my own way." For example, seven years ago, she ignored a consultant's advice and installed a computer system to help with everything from order tracking to product design. The consultant said she didn't need computers to do business. Powell knew better.

On most days, the company juggles about 150 orders; they are in various stages of development and are placed with dozens of different suppliers from coast to coast. Without the computer system, keeping up would be a clerical nightmare.

While computers manage the flow of information, the real engine for company growth has been Powell's commitment to quality service and lasting relationships. She's a tireless perfectionist, and it shows in the way she does business.

"Quite often, a client can get a better price, but we offer better service," says Powell. "We will do anything to make a customer happy. Why give up higher

quality of service for 5 percent lower price?" Most of her clients agree. Few leave to take their business elsewhere.

Her commitment to building long-term relationships doesn't stop with clients. Suppliers and her staff get the same level of attention. Over the years, not one employee has left to start a competing business—something she says happens routinely among competitors.

Powell attributes her employees' loyalty partly to the fact that she delegates considerable authority and then gets out of the way, letting her employees do their jobs. Compensation also is a factor. Two members of her sales force earn six-figure incomes, and others earn more than they could expect elsewhere, Powell says.

The future looks bright. Although Powell insists that she's "not trying to get any bigger," it seems almost inevitable that she will. After all, she concedes, "I really didn't try to get this big."

Looking back, Powell says she started Ads Infinitum as a way "to rescue my battered ego. When people laughed at me, it just fired me up even more." There's no doubt about who got the last laugh. ■

Does Father Always Know Best?

By Michael Barrier

Many family businesses go through a crisis when the owner dies. Other family businesses go through a different kind of crisis, when the owner becomes just ill enough that he can't run the business—but stays well enough to think that he can.

Something like that happened at Columbus Foods, a Chicago vegetable-oil company. Mike Gagliardo, 37, is Columbus' president; he and his sister Paulette, 38, are third-generation owners. They started running Columbus Foods when their father—also named Michael—suffered his first heart attack, in 1976.

Mike and Paulette divided the work neatly, he says: "Anything that had to do with paper, she took care of it." He took care of everything else. (Paulette, the firm's secretary-treasurer, has reduced her active role in the past few years.)

Columbus Foods in the '70s was, as it had been for three decades, a very small packer of cooking oils for Chicago-area customers. Under Mike and Paulette Gagliardo, the company moved into the large-scale packaging and national distribution of vegetable oils, raising employment from three to 60. Mike shows an understandable pride in how he mastered buying and selling in the volatile market for oils: "A lot of people say, 'Well, Mike, you were

given a family business.' Yeah, but I took it from \$5 million to \$60 million."

After the first heart attack, Mike recalls, his father tried to live the life of a retiree and refused to discuss company business. "He used to hang up the phone in my ear." But after a second attack, the senior Gagliardo decided to return to work part time.

Even though Mike and Paulette had spent a year and a half running Columbus, "Dad still owned the company," Mike says. There was friction: "We used to battle," Mike recalls. "He'd throw me out, take my keys. Dad was a real emotional guy; he didn't have a lot of patience."

Mike and Paulette's success in increasing sales didn't immunize them from their father's wrath. "He came in one day and slammed the door behind him," Mike recalls, "and said, 'You aren't paying attention to what you're doing.'" According to Mike, "profits were skyrocketing"—and the elder Gagliardo found this distressing, because it meant that Columbus would have to pay "huge amounts of taxes."

When Mike was forced off the job for a couple of weeks by an appendicitis attack, he came back to find that his father had wreaked havoc on the new inventory system—which Mike based on rapid turnover and frequent purchases from suppliers—by buying much larger quantities than the building could comfortably accommodate.

Despite all the turmoil, the family bonds never frayed. His father "would scream and holler," Mike says, "but he had a heart of gold." When he checked on Columbus' finances at his bank, he would brag to the bankers about his kids—even though he never praised them to their faces.

The senior Gagliardo died in 1982, at the age of 54, just before the company moved to much larger quarters. Today, Mike and Paulette speculate about how different things might be if their father had lived—to irritate them, to hold them back, to goad them on. "We wonder about it all the time," Mike says. "Would we have achieved more, or would we have achieved less?" ■



PHOTO: T. MICHAEL ALZA

Mike Gagliardo, left, processes vegetable oils.



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MAKING IT

When Failure Is Not An Option

By Sharon Nelton

Divorced and unemployed at 35, Barbara B. Grogan wondered 10 years ago how she was going to support her two young children. "My self-esteem was so fragile that I couldn't imagine anybody hiring me," she recalls. Besides, she wanted a job that would let her stay home if the kids got the chicken pox.

So Grogan started a construction business. And not just any construction business, either. Her Denver-based Western Industrial Contractors is a millwrighting company, specializing in erecting and installing heavy industrial equipment. Jobs range from assembling one of the world's largest underground baggage-

handling systems, at United Airlines' terminal at Chicago's O'Hare International Airport, to hanging a four-story theater screen in a Denver museum. Regular clients include Ralston Purina, General Electric Co., and IBM.

Grogan, whose infectious laughter and often self-deprecating humor punctuate her conversation, almost can't believe her own story. She runs a company that employs more than 80 people and brings in \$4 million to \$5 million annually. Last fall, her firm moved into its own brand-new, 7,000-square-foot building.

She sits on the boards of the U.S. Chamber of Commerce and the Deluxe Corp. and chairs the board of the Denver branch of the Federal Reserve Bank of Kansas City. In June she becomes chairman of the Greater Denver Chamber of Commerce. She is even the subject of a chapter in a book—*The Female Advantage: Women's Ways of Leadership*, by Sally Helgesen (Doubleday, 1990).

But life has not always been such a piece of cake. Grogan was working part time in her husband's crane- and truck-rental company when, in 1982, her marriage dissolved. "I figured out in pretty short order that I was in charge of my life and that nobody was going to come along

She went after large national accounts instead of smaller clients; the payoff would be higher, and she figured that if Western Industrial Contractors provided top-of-the-line service, customers would keep coming back. Her first big break came when the company was 8 months old and Grogan was nearly out of cash: WIC was hired to dismantle a Manville Corp. pipe-manufacturing plant in Florida and ship it to Malaysia.

In 1987, *Esquire* listed her in its Register honoring outstanding Americans and said WIC would take in \$5 million that year. But business wasn't merely flat, Grogan says, "it fell apart." Denver abruptly decided to build a new airport and terminated all major construction at Stapleton International, killing \$3.5 million worth of work that Grogan had in process or under contract.

When the stock market plunged in October 1987, most of her clients stopped their capital expansion programs, leaving WIC with almost no work. It was the only year the company didn't make a profit.

Proud of having survived, Grogan says, "We had very little debt at the time and a lot of retained earnings, which allowed us to bridge a very ugly gap."

Grogan credits her success to a "lot of little miracles" and to her incessant habit of probing other people's minds. She chooses outside advisers—from insurance agents to her banker—for their ability to teach her.

She is fiscally conservative, she says. "If we couldn't pay for it, we didn't buy it." Her accountant once told her she wasn't "leveraged" enough. "If you want to remain my accountant," she replied, "you'll never use that word in my presence again."

Of her management style, she says: "I find motivated people and get out of their way." She is such a believer in an open-door policy that in the new building, there are, by design, virtually no doors to the offices—not even her own. And she has fired more than one employee for being "mean."

Predictably, Grogan has turned Denver's decision to close one airport and build another into an opportunity. WIC is strategically located between the two sites, so she can have a hand both in creating Denver International Airport and in dismantling Stapleton. A consulting division she added to WIC in 1986 won a \$1 million contract to do the estimating and scheduling for the construction of the new terminal. WIC is also installing the inbound-baggage-handling system as well as rails and switching equipment for the facility's underground train.

Grogan still loves to drive past the building across from the junkyard, where WIC got its start. And when she does, she says with a laugh, "I always say, 'Thank you, God!'"



PHOTO: T. MICHAEL KEZA

In Denver, Barbara Grogan built a construction business on the ruins of her marriage.


and fix it for me," she says.

She chose millwrighting because she had become familiar with the industry while working with her husband. And, since equipment could be leased, she could get started without much capital. With \$50,000 in savings, she rented "this funny, funny, funny little building" across from a junkyard on a dead-end street, bought a 13-year-old pickup, and "hired some guys and began."

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"It wasn't as though there was a Plan B," she recalls. "This had to work. This not working was not an option."



What makes a business perform?

"They call me a ringmaster. But it takes more than that to run a circus. I'm a stage director, an entertainer, a boss, a family counselor, an arbitrator, a musician and, at times, a drill sergeant. And I know enough about juggling, tumbling, flying, leaping, and animal training to make sure the troupe always performs at its best."

Anyone with the commitment and talent to create a business learns to be different things to different people. But flexibility — as important as it is — does not create success.

In the depths of the Great Depression, Dave Packard and Bill Hewlett rented a garage in Palo Alto, California and started a business. They learned early that product flexibility paid off. In recent years that approach has helped make HP LaserJet printers the first choice for more people than all other laser printers combined. But again, flexibility is just one ingredient. Real success requires something extra.



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"At the perfect moment, I release the bar, somersault backwards three times and Mario catches me. We swing together like a pendulum and at the apex of our return, we release. I pirouette one-and-a-half turns and catch the bar of my own trapeze. I rely on Mario to be there at that precise fraction of the second. I can practice somersaults and pirouettes all day long, but what difference would it make if Mario wasn't there when I needed him?"



Anti-static testing is just one of many challenges this new LaserJet printer faces during 18 months of prototype testing.

It's 11 a.m. on a Saturday morning in Cincinnati, Ohio and Paul Horstmeier is savoring the moment.

Horstmeier is a product manager for HP. He has given up his weekend and traveled 2,000 miles to a computer superstore in Cincinnati to, as he says, "find out what customers need so we can turn those needs into products."

The Hewlett-Packard display area is right next to a particularly aggressive competitor who is cutting price and offering rebates to compete against HP LaserJet printers. The reason Horstmeier enjoys this moment is because the competitor's space is virtually empty, while customers pack the HP section.

"Superstores and other HP authorized dealers offer many options,"

he explains, "and customers are buying three and four thousand dollar products right off the shelf. When they're spending that kind of money they want a safe buy. A

bulletproof LaserJet printer is worth a lot more than a hundred dollar rebate."

Testing.

Circus flyers succeed by practicing and practicing and practicing. HP succeeds by testing and testing and testing.

"Testing is critical to the development of every LaserJet printer," says Ron Juve, an HP engineer. "We even test our competitors' products to make sure we catch the kinds of problems they've missed."

Before approving a new LaserJet printer for market, HP engineers printed more than 225,000 pages on a prototype model. The equivalent of 30 pages a day for 20 years. Vibration testing, drop testing, anti-static testing, high and low temperature testing, radio frequency interference

testing, and sound level testing are all part of the HP battery. Plus something Juve calls "inspirational" testing.

"We give prototype LaserJet printers to our most creative engineers and say 'make them crash, if you can.' Believe me, they get inspired."

A lot of what test engineers do is painstaking and repetitious. Like practicing the same acrobatic movement over and over again. But they do it for a very good reason.

"One person complaining about a product may influence ten others," says Juve. "We can't afford those kinds of odds."

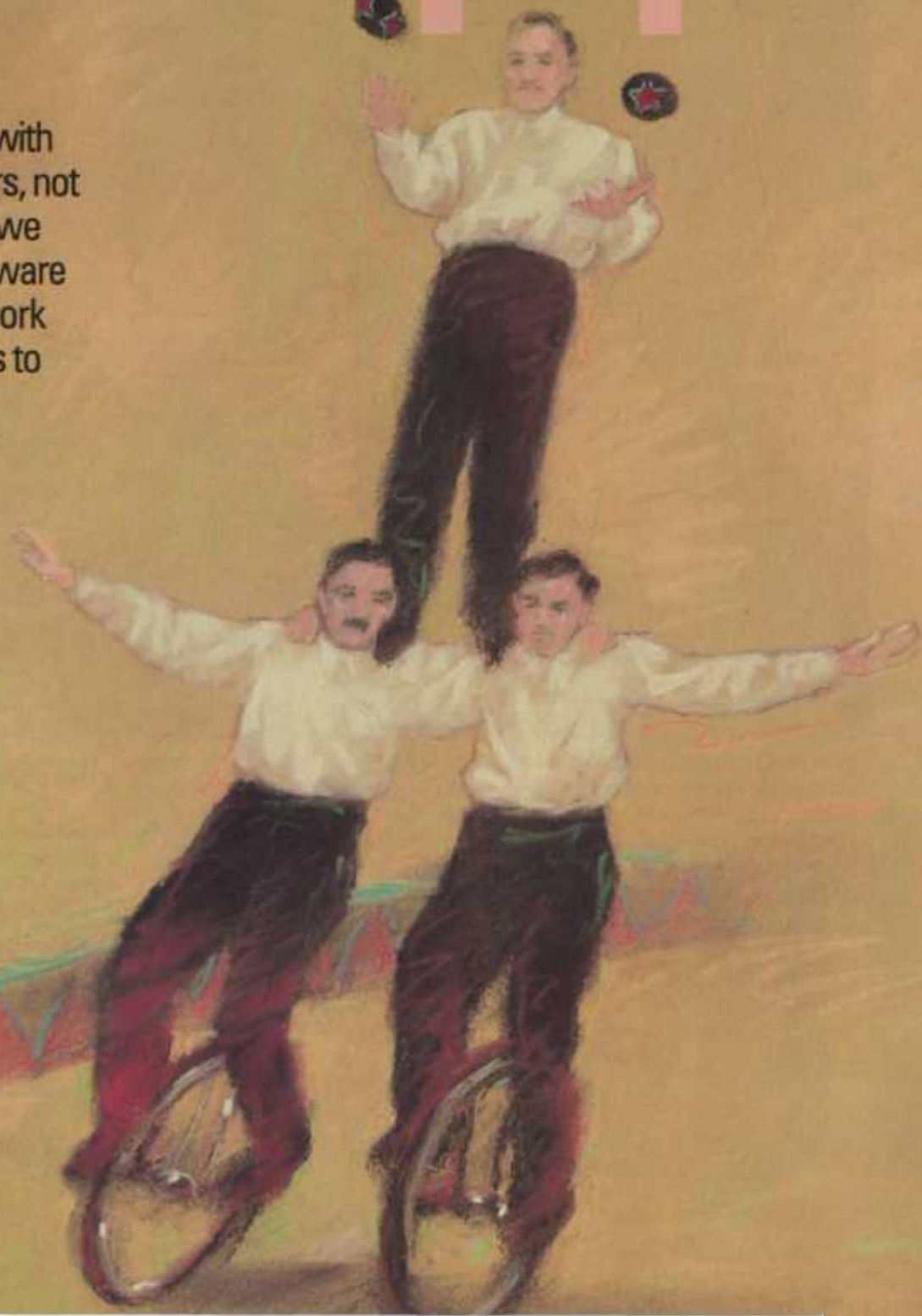
Reliability. When a customer trusts you and your product, you're on the

"We give prototype LaserJet printers to our most creative engineers and say 'make them crash, if you can.' Believe me, they get inspired."

road to success. It's one of the things HP learned early and never forgot. Another was this: if we wanted to sell our customer a second product, we had better support the first.

suppo

"At HP we work with software vendors, not against them. If we identify key software problems, we work with the vendors to correct them."



port

"Basically, it's the human pyramid. But we've added our own twist. My brothers race up a ramp on their unicycles and plunge off the end. They hit the springboard in perfect unison and send me leaping into the air where I somersault and land on their shoulders. Then, as they pedal around the ring, I juggle. We worked six months on the routine. This may sound hard to believe, but every time I missed their shoulders or my footing slipped, they caught me. Every time! And still kept their balance! How often do you get that kind of support from your teammates?"

Linda Jensen, a manager with HP Customer Assistance, is explaining a few of the basics to a group of trainees learning to be troubleshooters for HP's Technical Support Line.

"When someone calls us, it's usually because they're trying to do something new with their LaserJet printer and can't figure out how. Maybe they're up against a deadline and haven't had time to read the manual or call their dealer. They're probably frustrated. You need to be the best friend they've got. Be patient and understanding."

Jensen is a crusader for customer support.

"Nothing annoys a customer more than getting tossed back and forth between a hardware vendor and a software vendor, each pointing the finger at the other," she tells her class. "At HP we work with software vendors, not against them. If we

identify key software problems, we work with the vendors to correct them."

Make it easy.

The HP LaserJet IIP *plus* and LaserJet IIP printers are so afford-



On a typical day, HP Customer Assistance staffers answer thousands of calls from LaserJet printer users. Questions range from the basic to the esoteric.

able that many businesses are making the leap from dot matrix to laser. HP is doing everything it can to make the landing as sure-footed as possible. One way is to put a real person in a real situation and see what happens. Technically speaking, this is called usability testing.

The table in the center of the room is bare except for a computer and a few tools. On the floor beside it sits a cardboard packing box containing an HP LaserJet IIP *plus* printer. The woman studying the scene is a volunteer whose normal job is in real estate management. For the next hour, her objective is to unpack the printer, hook it up to the computer, and print a page. With no help except from the documentation. Each step in the process will be recorded by an HP product team that is searching for ways to make the whole process easier.

"We get thousands of calls a day from people with questions," says Jensen. "Cables, documentation, memory

boards, font cartridges, toner cartridges, control panels — all that stuff can be pretty intimidating to someone who's just opened a printer carton. We're always looking for ways to make it easier."

Understanding.

"Hello. This is Diane at HP Support. How can I help you?"

"Hi, I'm calling about our LaserJet. We want it to print sideways, so the page is wider than longer. How do we do that?"

As Diane walks her caller through each step, other troubleshooters are answering hundreds of calls from LaserJet owners all over the United States. A call to HP can save a customer time and money. Most questions can be answered in less than a minute. The more difficult ones will get a call back from the troubleshooter after the question is researched. And all the important information will be referred back to HP's product developers.

HP is working to make its support services the best in other ways as well. Customers now have access to a library of software application notes and other helpful information through the mail or through HP's worldwide fax service, HP FIRST.

Support. Approach a sale as part of an ongoing relationship between "partners" and you will create a solid foundation for your business. At HP, we learned early that reliability and support were vital to our success. But the ultimate test was performance.

perform

"My family has always trained elephants. We spent weeks teaching Tina Marie to stomp on the raised teeterboard. And it took me years to become a skillful enough acrobat to spring into the air, perform a double backwards somersault and land on her sister's shoulders...but those few seconds – the stomp, the leap, the landing – those seconds when the performance comes together like clockwork, they make all that training worth it."

For Matthew Sell, a pediatric intensive care physician in Boise, Idaho, performance is a 24 hour-a-day commitment.

"As a physician, my first responsibility is to take care of tiny, prema-

Because much of his research focuses on new technology, Dr. Sell is acutely sensitive to how equipment performs. One piece of technology he believes in is his LaserJet printer.

"It's absolutely reliable. We use it for writing professional grant applications. We use it for producing good looking reports. And the type options are excellent for printing original documents that are reproduced for journal reprints and meeting abstracts.

"The LaserJet produces the crisp, clean printouts I need when I have to fax test results to other physicians.

"Because so much of our work is on the leading edge, we use it with all kinds of unique software. So far, it runs with everything," Dr. Sell adds.

Vision.

By his own admission, Dr. Sell is a driven entrepreneur with a vision: to create a respected research organization independent of a major university hospital.

In 1985, Dr. Sell's research "group" had one person—Dr. Sell. Today, there are six full-time staffers. The LaserJet printer is exactly the kind of tool Dr. Sell needs to compete against big university hospitals for grants and funding.

Today, he and his colleagues are studying pulmonary functions in premature babies.

"We're using the LaserJet with a computer-based program that enables us to attach sensors to a baby and measure certain lung functions," he says. "We can then produce a readout that shows us how the lungs respond to different drugs and therapies. These babies can't tell us what they need. Research speaks for them."



You can build a reliable product and support it to the hilt, but performance is the ultimate test. The HP LaserJet IIP plus and HP LaserJet IIP printers are our most affordable performers. They're both compact and PC-compatible; they both print four pages per minute, have 300-dpi resolution, print envelopes and come with built-in fonts. The HP LaserJet IIP printer offers HP's exclusive Resolution Enhancement technology, scalable type and more memory.

ture babies in an intensive care situation," explains Dr. Sell. "But beyond that, we need to learn the best ways to manage certain conditions. That means researching the newest technology, learning how it performs and sharing our experiences."

ance

"Because so much of our work is on the leading edge, we use it with all kinds of unique software. So far, it runs with everything."

Dr. Sell and his colleagues are using research to evaluate the tools that will help pediatric intensive care physicians treat their patients more effectively. HP is using research to understand what small businesses need, and to deliver the products that meet those needs. Products that perform under pressure. Research also tells us that only one in five Americans who takes on the challenge of building a business, does it for money. Clearly, Dr. Sell and his associates are among the majority. Their rewards come from being the first to perform new procedures and report these experiences to other physicians, and ultimately, to advance the quality of neonatal medicine.

Performance. For more than half a century, HP has focused on developing and creating tools that help others achieve their goals. Experience has taught us to stick with what we do best. We know that by continually improving and advancing our products, we will continue to attract customers who value reliability, support and performance.



Take a closer look at an HP LaserJet.



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When owners and managers of smaller businesses talk about the tools that help them succeed, they don't mince words. That's why we've asked owners of HP LaserJet printers to tell us their feelings about HP reliability, support and performance.

Their comments are included in a video which we'd like to offer you, absolutely free.


If you're considering a new laser printer, or plan to upgrade from a dot matrix printer, this free video is just what you need to get a better picture *before* you buy.

This video also includes detailed information about the HP LaserJet IIP *plus* and HP LaserJet IIIP printers, and why they make sense for smaller businesses.

Again, this video is absolutely

free. No salesperson will call, and you incur no obligation by asking for it. To get your video and the location of your HP authorized dealer, call 1-800-LaserJet (1-800-527-3753), ext. 3041.

For an HP Authorized Dealer in Canada, call 1-800-387-3867.

 **HEWLETT
PACKARD**

Two Routes Toward A Balanced Budget

By Mary McElveen

Two distinct approaches to a balanced federal budget are expected to be debated soon in Congress. The differences may appear subtle to most Americans, but they are stark to those on opposing sides of the discussion.

One approach would simply require Congress to balance the budget; the other would do the same but would restrict how lawmakers could achieve that balance. It would do so by requiring a "supermajority" of both houses of Congress to approve tax increases designed to finance higher spending.

Advocates of the simpler approach are less concerned about the means of achieving a balanced budget than they are about reaching that end.

Those who back the tax-limitation approach believe the means, without a tax-limitation provision, could destroy the end. They fear Congress will continue its historical pattern of spending more each year and will simply increase taxes to achieve the required budget balance. These tax-limitation advocates would prefer spending cuts to tax increases to bring the budget into balance.

Some advocates of the simpler approach assert, on the other hand, that if recent history is any guide, there is a good probability that a tax-limitation provision could kill any effort to pass a balanced-budget bill. Other advocates of the simpler approach oppose the tax-limitation alternative because it would limit their ability to raise taxes to achieve a balanced budget.

In 1990, the House first defeated a balanced-budget bill with a tax-limitation provision, then followed that vote by defeating a simpler balanced-budget approach as well.

But this year is different because both political parties are under pressure from constituents to get the deficit under control. Thus, a simpler balanced-budget bill stands a better chance of passage. The number of congressional co-sponsors for bills embodying the simpler approach is growing quickly.

The annual budget deficit, which was \$154 billion in fiscal 1989, will approach \$400 billion in the current fiscal year. Federal spending as a percentage of gross domestic product is expected to climb to more than 25 percent this year, its highest level since World War II.

Both sides in the budget debate see the

rising annual budget deficits as a threat to the country's economic well-being. They both seek a similar device—a constitutional amendment requiring a balanced budget—to eliminate the deficit.

The most prominent of the current balanced-budget bills embodying the simpler balanced-budget approach, with no supermajority requirement for tax hikes, were introduced by Sen. Paul Simon, D-Ill., and Rep. Charles W. Stenholm, D-Texas, in their respective houses. Two bills providing for the tax-limitation approach were proposed by Sen. Robert Kasten, R-Wis., in the Senate and Reps. Joe Barton, R-Texas, and W.J. (Billy)

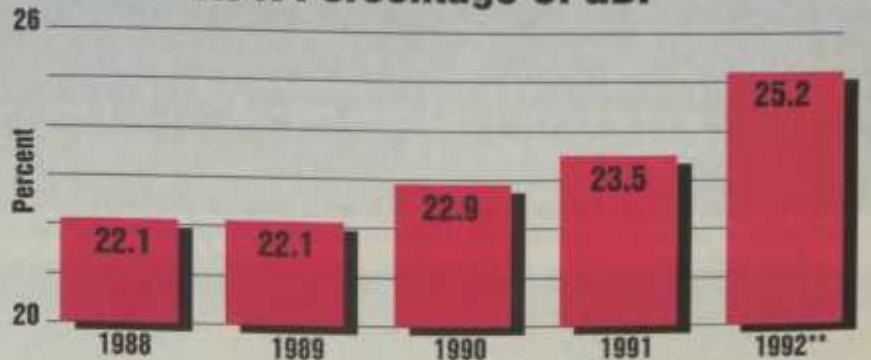
Two approaches to eliminating federal budget deficits are headed for debate in Congress.

toed a bill that would have raised taxes to finance more spending. This second group believes a requirement for a balanced budget would improve its chances to win a tax increase.

In addition, Senate Majority Leader George J. Mitchell, D-Maine, has indicated he may bring Simon's balanced-budget bill to the Senate floor for a vote soon.

Simon's opponents who advocate the tax-limitation approach are trying to educate their fellow members of Congress and the public on the issue to position themselves to defeat Simon's bill. They maintain that a vote against the Simon/

Federal Spending As A Percentage Of GDP*



Source: Federal Budget, Fiscal 1992

ILLUSTRATION: KATHLEEN VETTER

*U.S. Gross Domestic Product **Projected

Tauzin, D-La., in the House.

The bills proposed by Kasten, Barton, and Tauzin would require at least three-fifths of both houses of Congress to approve a tax increase greater than the rate of economic growth. It would require an identical supermajority vote to allow spending to exceed projected revenues.

Simon's bill was approved by the Senate Judiciary Committee last July and has been awaiting a Senate vote since then. The Kasten, Stenholm, and Barton/Tauzin bills await committee action.

The current stir over balancing the budget appears to have resulted from two separate but converging situations: First, several prominent lawmakers have expressed greater-than-usual frustration over Congress' inability to control deficit spending. (See the related editorial, on Page 87.) Second, some legislators are unhappy that the president recently ve-

Stenholm legislation does not mean a vote against fiscal responsibility.

Indeed, opponents argue, a vote for the Simon/Stenholm legislation might work against fiscal responsibility and open the door to additional spending.

Opponents of the tax-limitation provision argue, however, that their plan is also responsible because it has a much more realistic prospect of adoption than the supermajority plan. Advocates of the simpler approach say some kind of control, in the form of their approach, is better than no control.

If any legislation to amend the Constitution is approved by Congress, it would have to be ratified by 38 states within seven years to become law. **MB**

Tell us your views on a balanced-budget amendment to the Constitution by responding to Where I Stand, on Page 4.

Small Firms Put Quality First

By Michael Barrier

It has become the most popular abbreviation since TGIF. The initials are everywhere: TQM. They stand for Total Quality Management, an umbrella term for the quality programs that have spread through U.S. business in the past dozen years.

TQM first took hold in big manufacturing companies that faced jarring challenges from Japanese competitors. In the years just after World War II, Japanese manufacturers embraced the quality messages of such American advisers as W. Edwards Deming and J.M. Juran, and by the 1970s, Japanese products had acquired powerful reputations for superior high quality.

Growing numbers of U.S. manufacturers have fought back with quality programs of their own, and the movement

has spread to big service companies, too.

Increasingly, the small businesses that supply big TQM companies have felt the impact of those quality programs, because the big companies have insisted that their small suppliers adopt quality programs of their own.

There's a simple reason for such customer pressure: When an auto maker, say, is trying to produce defect-free products, it cannot tolerate defects in the parts provided by its small suppliers.

One such supplier is a small, Muncie, Ind., company called Pooler Industries; its DynAmerica division produces critically important, high-precision auto parts, as well as components of other products. Pooler Industries was one of the four firms designated as National Blue Chip Enterprises in the annual program spon-

sored by Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*. (See the box on Page 32.) Owner Noel Pooler says that the new emphasis on quality "that emerged at the auto companies when they were faced with stiff competition has spread to almost all our other customers," and they too now require that their parts meet very demanding standards.

The spread of TQM among large firms "doesn't just change how those folks do business," Pooler says. "It changes how everybody who deals with them does business. They're attempting to reduce the number of suppliers that they have—they want long-term contracts, fewer and fewer suppliers, and better and better quality."

As Pooler points out, TQM's scope is

CEO Raymond Marlow—seen here with quality-assurance manager Julia Kendrick, left, and employee Theresa Waters—led Dallas-based Marlow Industries to a Malcolm Baldrige National Quality Award.

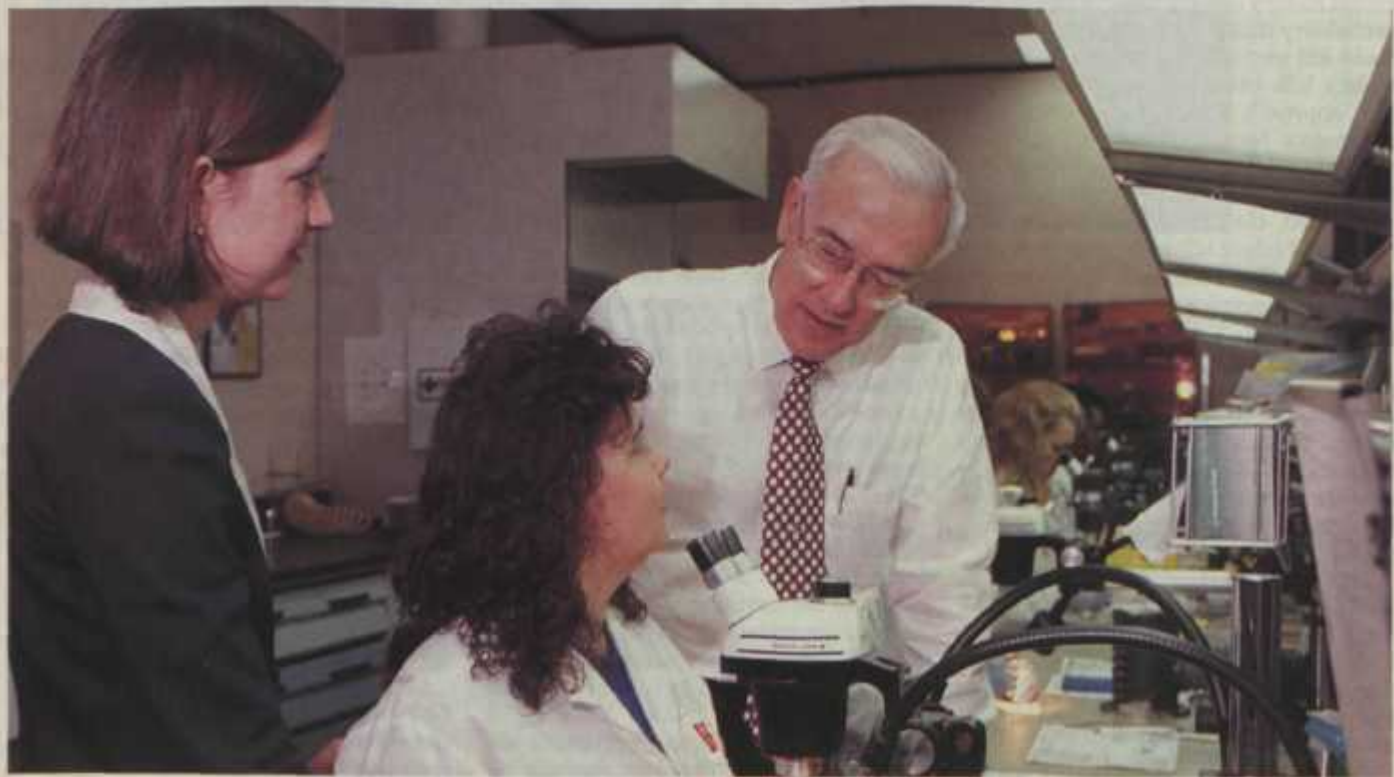


PHOTO: T. MICHAEL KEZA

Entrepreneurs are learning that Total Quality Management can be critical to survival.

TQM

Total Quality Management

all-embracing: "It's not just that they don't want any bad parts. That's just the tip of the iceberg." Pooler's customers look at the quality of everything his company does: how it handles deliveries, how rapidly it responds to engineering changes, how quickly and politely its phones are answered.

At the DynAmerica division, with its 65 employees, he says, "everybody has to have a commitment to quality, 100 percent of the time in 100 percent of what they do."

Not just small manufacturers but small service companies, too, are feeling the pressure. The quality movement is reaching critical mass, and those businesses that have not committed themselves to TQM will find it more and more difficult to meet their customers' demands, whether those customers are consumers or other firms.

Total Quality Management is thus more than a way for a small business to improve the quality of its products and services; it may very well be the key to survival.

Fortunately, there is no real mystery about TQM. After more than a decade of quality programs, there is wide agreement on their essential ingredients. Among them:

- An intense focus on customer satisfaction. "The essence of TQM is that you should be customer-driven," says Richard L. Leshner, president of the U.S. Chamber of Commerce, which recently announced plans for a TQM program.

TQM's definition of "customer" embraces internal as well as external customers. An employee in the shipping department may be the internal "customer" of an employee who completes assembly of a product, for instance, just as the person who buys that product is the customer of everyone in the company.

- Accurate measurement, using a fistful of readily available statistical techniques, of every critical variable in a business's operations. TQM companies use those measurements to trace problems to their roots and eliminate their causes.

- Continuous improvement of products



PHOTO: T. MICHAEL KEZZA

CEO Tom Klobucher, right, of Thomas Interior Systems, works with Martha Akre and Christian Penev on the Chicago-area firm's Quality Improvement Team.

and services. TQM is not a static concept; by eliminating chronic problems, it opens the way to never-ending innovation.

- New work relationships based on trust and teamwork. Central to TQM is empowerment, through which management gives employees wide latitude in how they go about achieving the company's goals.

Marlow Industries, the Dallas firm that was last year's small-business winner of the Malcolm Baldrige National Quality Award, is one of those companies that adopted TQM under pressure from its customers.

Congress created the Baldrige Award five years ago to recognize U.S. firms with outstanding records of quality improvement and quality management. With 160 employees, Marlow is the smallest business yet to win. Only three small firms have ever won, out of 105 that have applied. Marlow makes thermoelectric

coolers—small solid-state devices used for spot cooling in critical applications for telecommunications, aerospace, and the military. Most of Marlow's products are custom-made, for customers who impose their own quality requirements on their suppliers. Marlow had to come up with a comprehensive quality system that would meet all of those requirements.

That might look like an intimidating task for so small a company, but Marlow successfully introduced profound changes in the way it operates. For example, about two years ago Marlow broke up its quality-assurance department, assigning product inspectors to "minifactories"—self-contained units, made up of perhaps 15 persons. Today, says Chris Witzke, Marlow's chief operating officer, the inspectors "look after the quality systems, set training standards, do audits—but they're not in the product-inspection business."

In other words, Marlow switched from product inspection to process control—

COVER STORY



PHOTO: SQUARE HALL

Blue Chip designee Robert Freese believes in solving problems "forever."

from catching and correcting defects at the end of the process, to monitoring the process itself so that defects do not occur. That is the sort of change that every true TQM company makes.

Even though such TQM ideas first proved their worth in large manufacturing organizations, Marlow and many other small companies—manufacturing and service firms alike—have proved that TQM works just as well for the small as for the large. It may work even better. Small companies may enjoy an edge in achieving customer satisfaction, in particular, if only because it is often so much easier for the people in a small business to know their customers.

In fact, A. Blanton Godfrey, chairman of the Juran Institute—the training organization founded by J.M. Juran—suggests that it is in the smallest U.S.

businesses that TQM is found in its native state. The five or 10 people in a very small business are in constant contact with their customers and with one another, and so they practice TQM without realizing it. But as a small business grows larger and such contacts wither, he says, the business must adopt TQM formally, if it is to learn how to do again what it used to do naturally.

TQM can still be tricky, though, and a small firm just starting to explore TQM should take advantage of the wisdom that other small firms have accumulated over the past few years. Here are a few guidelines, derived from discussions with successful TQM companies and experts in the field.

TQM must start at the top. If there is one vital ingredient for a successful TQM

effort in a small firm, it is the CEO's visible and unreserved commitment to TQM. Without it, other managers will hang back.

That commitment cannot be what Charles Garfield, author of the new book *Second to None: How Our Smartest Companies Put People First* (Business One Irwin), calls "a hot-air commitment, where the CEO makes a lot of noises about being committed to quality, but there's no system in place."

Says Robert P. Freese, CEO of Alpha-tronix, a small high-tech company in Research Triangle Park, N.C., that was named a National Blue Chip Enterprise: "The No. 1 hurdle is to live and breathe the quality principle."

"If you live and breathe it," he continues, "and you're a small-business owner or a CEO of a relatively small company, you have an advantage over big companies, because you don't have a huge bureaucracy in place. You can go around and visit people, and they're going to pick up your enthusiasm."

Curt W. Reimann, director of the Baldrige award program for the U.S. Commerce Department, agrees: "The leader of a small business can transform the organization in a tiny fraction of the time that a large organization requires."

You don't have to do everything at once. Robert Freese says that the "philosophical change" must be total, but the transition to a quality system can come in stages.

A company's culture should dictate how it moves into TQM. One example: Thomas Interior Systems is a designer and reseller of office furnishings in the Chicago suburb of Elmhurst, Ill.; it began adopting TQM in 1988, under pressure from one of its biggest customers, and it has since applied for the Baldrige Award and been designated a Blue Chip Enterprise for Illinois. The company's small size—75 employees—has meant that it can adopt changes quickly once it decides to make them. But the company's conservative nature shows through in how carefully it considers changes.

The company's Quality Improvement Team, made up of the firm's half-dozen top managers, "makes decisions on 'Thomas time'—slow motion," its founder and president, Thomas S. Klobucher, says with a smile. "What we really do is work toward consensus. When we have consensus, we act."

Raymond Marlow, founder and president of Marlow Industries, endorses a similar approach in implementing TQM: "You've got to have patience, because it's going to take time to do it." He believes "it takes a couple of years" before employees can work together smoothly in problem-solving teams. While the transition is taking place, he says, top management



A pioneer of the quality movement in Japan after World War II, J.M. Juran, left, later founded a training institute that bears his name. A. Blanton Godfrey, right, the institute's chairman, believes that TQM comes naturally to the smallest firms; as they grow larger, they must relearn skills they didn't realize they had.



TQM

Total Quality Management

must display what he calls "consistency of purpose. You have to keep the thing moving."

You should measure constantly, but carefully. "If you measure something," Marlow Industries' Chris Witzke says, "it improves." Simply posting measurements—putting up a chart showing how well departments are doing at turning in their time cards on schedule, for instance—can sometimes solve a problem.

But even for a manufacturing operation like Marlow, deciding what to measure, and how to measure it, may not come easily. For example, Marlow devoted almost a full year to developing statistical process controls. "We really dedicated ourselves to understanding our processes and finding the key variables," Witzke says. "All this stuff used to be black art. Now it's science." Marlow at one time measured 52 variables in a plating process—but had constant problems anyway. Now it measures only 14 variables (including seven new ones), and the problems have disappeared.

Measurements can sometimes reveal things about a business that no one would have suspected if the measurements hadn't been made. When Marlow began subjecting employee turnover to Pareto analysis (which is, essentially, a statistical method for identifying your biggest problems), it discovered that a 90-day probationary period was contributing to turnover by encouraging supervisors to make marginal hires. Once the supervisors understood the cost of that turnover, they tightened their hiring practices.

With measurements of any kind, says Julia Kendrick, Marlow's quality-assurance manager, "you need to look at what you want to do with the results." At Marlow, decisions on what should be measured have followed surveys of internal customers so that what was important internally could be measured.

Measurement, so central to quality efforts, is always a problem for a service firm and particularly for one that employs creative people, as Thomas Interior Systems does, in its designers. "You can't really measure creativity," says Martha Akre, Thomas' design manager and quality coordinator. At Thomas, as at Marlow, turning to the customer has provided the answer.

"We had everybody in the company go out one day and interview two external customers about what was important to them," Akre says. "They also asked an internal customer—somebody who received their output within the facility. From those two lists, we figured out what we should be measuring."



PHOTO: T. MICHAEL KEZA

Noel Pooler says small firms are feeling pressure from big companies' TQM programs.

As important as measurement is, it's a mistake to get wrapped up in measurement for its own sake. Curt Reimann says: "A company doesn't earn money making measurements. The trick is to avoid great measurements of irrelevant things. You may have to live with approximate measurements of exactly the right things."

A short-term payoff can have long-term benefits. As Charles Garfield says, "There's no such thing as an insignificant improvement." By finding ways to make constructive changes immediately after embarking on TQM, management accomplishes two things:

First, it shows employees that it's serious about change. "One way to catch employees' attention," Chris Witzke says, "is by changing the organization's struc-

ture. They believe that something major is happening when you do that." Marlow signaled its serious intentions when it reorganized itself into the minifactories and gave each of them broad responsibility for its output.

Second, it reminds itself that results are what it's after. Quality programs can be seductive; all the meetings, teams, training, and goals can persuade a CEO that he is accomplishing something, even though he isn't. Robert H. Schaffer and Harvey A. Thomson, writing recently in the *Harvard Business Review*, point to those companies that "proclaim their quality programs with the same pride with which they would proclaim real performance improvements—ignoring or perhaps even unaware of the significance of the difference."

There are many roads to TQM. Two big companies with strong quality programs helped Thomas Interior Systems get into TQM. "You see the real world of quality" by working with such companies, says Rex Welsh, Thomas' marketing manager. In addition, as the members of Thomas' Quality Improvement Team attended seminars and read books on TQM, "we became consultants to each other," says Tom Klobucher.

Raymond Marlow of Marlow Industries relied at first on Philip B. Crosby's influential book, *Quality Is Free*; later, he says, the criteria for the Baldrige award provided "a broad structure" that helped the company do well what it had already started doing.

Lots of people are ready to teach you how to adopt TQM, through books, courses, and seminars, and many of them have something valuable to say. If there is any rule to follow, it may be that you



A book by Philip B. Crosby, *Quality Is Free*, published in 1979, helped trigger widespread interest in quality management.

Networking For Quality At The Local Level

The steady growth of interest in Total Quality Management has brought a corresponding growth in TQM activity at state and local chambers of commerce. Chambers are turning out to be natural vehicles for informing small businesses about how TQM can work for them.

The Greater Philadelphia Chamber of Commerce was the first chamber to offer its members help in initiating quality programs. Its quality efforts were born in 1983, as the Philadelphia Area Council for Excellence (PACE).



W. Edwards Deming, one of TQM's giants, speaks at a seminar for the Greater Philadelphia Chamber of Commerce.

Maureen Glassman, the Philadelphia Chamber's group vice president for organizational development, says that PACE was created in response to the weakness of the area's economy in the wake of the recession of the early '80s. In the search for ways to revive the economy, she says, chamber leaders "decided that total quality was the way to go."

PACE used W. Edwards Deming's quality philosophy as the basis for its efforts. Deming himself has returned to Philadelphia every year since 1984 to conduct a four-day seminar; 600 people attended this year, paying fees of \$725 to \$1,150. "Dr. Deming encouraged us to bring businesses together to help each other," Glassman recalls, "because Japan has very strong networks of businesses that help each other and share resources. It's the old idea of competition vs. collaboration."

In addition to the Deming seminars, PACE offers more than 15 seminars a year in such quality-related subjects as statistical analysis and self-directed employee teams. Philadelphia chamber members who want to belong to PACE pay annual membership fees ranging from \$125 for individuals to thousands of

dollars for large corporations, but the more than 380 members can recoup their investment through free or discounted tickets to the seminars.

Getting involved in seminars and other quality efforts is difficult for many small businesses because, as Glassman says, "they don't have a lot of extra time or people." To serve such companies, PACE sponsors evening network meetings and publishes a network directory.

The directory is "open to the whole community," Glassman says. "You just have to fill out a form and say that you're willing to share information." In their directory entries, companies tell how long they've been involved with TQM and which methods they're using.

PACE also has a 160-tape video library; small-business members that may not be able to afford a training firm or a consultant can borrow videotapes and use them in training sessions for their employees.

The results of this nine-year effort, as far as PACE's members are concerned, seem to have been wholly positive: the Philadelphia chamber has accumulated a sheaf of endorsements from member companies, many of which credit PACE for creating jobs and enhancing profits.

In the middle and late '80s, chambers in a few other cities—Milwaukee; Spartanburg and Columbia, S.C.; Kingsport, Tenn.; and Erie, Pa., among them—followed Philadelphia's lead and established quality programs of their own. Now, with interest in TQM quickening throughout the country, PACE is offering other chambers what it describes as a "comprehensive technical assistance package" at a fee of \$3,000.

Practicing what it preaches, the Philadelphia chamber began an internal TQM program three years ago, in an effort to shape the services provided by its 70 employees along the lines desired by its members. "We should be examples to the entire business community and represent all the best things about the business community," says Charles Pizzi, the chamber's president.

Under TQM, since 1989, the organiza-

tion's membership has grown by 20 percent, despite the recession, to 6,000.

The U.S. Chamber of Commerce, too, is beginning a double-barreled TQM effort, adopting TQM internally and at the same time offering TQM information to its members.

"We have always thought of ourselves as a quality organization," U.S. Chamber President Richard L. Leshner says. "We have always thought of ourselves as a customer-driven organization. But we've looked at Total Quality Management enough to know that there's even more to be gained. And we think that [adopting TQM internally] is also a necessary first step in order to have legitimacy as a teacher and purveyor of TQM ideas."

This spring, the U.S. Chamber joined with George Washington University to offer five televised seminars with such TQM authorities as Deming, J.M. Juran, and Philip B. Crosby. The seminars are being distributed by satellite to more than 250 sites throughout the country; dozens of state and local chambers are participating.

One of those state chambers is the Greater North Dakota Association, headquartered in Fargo. Working with local chambers, the association has arranged for satellite hookups at eight sites across the state; almost 1,000 people in North Dakota viewed the first seminar on March 31.

"We originally intended to have just one downlink and whet people's appetites," says Eddie Dunn, vice president of the North Dakota association. "It's just exploded on us." The seminars have complemented perfectly the association's efforts to focus attention on the long-term needs of North Dakota's economy, he says.

Likewise, the seminars have tapped into a burgeoning interest in TQM at Wichita Falls, Texas. Ron Mertens, president of the local chamber, the Board of Commerce and Industry, says that at least 536 people attended the first seminar in his city of less than 100,000.

Leshner sees TQM education via television, like the satellite seminars, as a likely way for the U.S. Chamber and cooperating state and local chambers to provide TQM training at a reasonable cost to businesses that cannot afford more expensive offerings. As the Chamber develops its programs, he says, "we're applying the first principle of TQM: We're asking the customers what they want, and when they want it."

The active involvement of chambers at all levels could be critical to the widespread adoption of TQM and thus to the country's economic future, Leshner says: "Unless all of us get involved, a lot of small and medium-sized companies will never become TQM organizations."



"My people think I'm cheap."

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TQM

Total Quality Management

should seek out the broadest possible exposure to different viewpoints—as through the current U.S. Chamber-sponsored series of televised seminars with such TQM authorities as Crosby, Juran, and Godfrey—before settling on one as a principal guide.

Quality is free. In his book of that title, Crosby argues, in effect, that what a company saves by eliminating waste and rework far outweighs any costs associated with a quality program. The Chamber's Leshner says that Crosby is right: "I've talked to a lot of CEOs of companies that have gone through TQM, and they all say that it's paid for itself 100 times over. And small companies can buy into TQM a lot more cheaply than big companies."

When a quality program is working, Chris Witzke says—when customers are happy, products are defect-free, deliveries are on time—"all of a sudden you've got 30 percent more staff than you thought you had" because employees are spending less time correcting problems.

Start-ups in particular enjoy an advantage now. Alphatronix's Robert Freese says, because so much has been learned in recent years about how to achieve quality results.

Empowerment doesn't mean abdication. If there is one aspect of TQM that stirs the strongest misgivings in managers—and is least understood by them—it is employee empowerment.

Many managers recoil from empowering employees, Charles Garfield says, "because they believe it has to do with letting go of power. The truth is, you get power by giving power. It's much better to have a thousand people pulling in your direction, and not just the guys at the top."

After all, management does the empowering and decides what the employees will be empowered to do. The process is circular: Management empowers its employees to implement the vision that management, by virtue of that empowerment, has the time to formulate.

Through empowerment, Alphatronix's Freese says, he has freed himself to do "a great deal of strategic planning." Usually, he says, he is thinking not about what will happen in the next month—although he pays some attention to that—but about where the company will be one year, or five years, down the road.

At Marlow Industries, one of the mini-factories came up with a "service guarantee" for its internal customers. Posted prominently in a hall at the plant, the guarantee promises replacement of any unsatisfactory part within 24 hours. After

that guarantee went up, Witzke says, "it wasn't long before they started popping up in other places. That's the ideal situation, where management doesn't have to spend all of its time making things happen. It's a great life, I'll tell you."

TQM means solving problems "forever."

The way to achieve perfect quality, Freese says, is by "taking the time to analyze the situation, do some statistical analysis if it's appropriate, get everybody you need together, and solve that problem forever. Inoculate your process against it."

TQM is, to use a term popular with its advocates, prevention-based. Freese offers this example: If a product is coming off the assembly line scratched, any number of solutions might alleviate the problem; but real quality thinking, Freese says, will lead to a permanent solution—in this case, giving the product a scratch-proof surface.

"You need to implement [quality thinking] not only in the factory, but everywhere else," Freese says.

For example, Alphatronix, like rapidly growing small businesses everywhere, suffered from cash-flow problems, caused in part by the buildup of its inventory of

The essence of TQM is that you should be customer-driven.

—Richard L. Leshner

supplies. That inventory grew because suppliers shipped only once a month. Such a situation would lead, at many businesses, to broad commands from the top to reduce inventories, and a subsequent round of accusations and recriminations. A lot of energy would be devoted not to solving the problem, but to finding someone to

blame for it.

But not at Alphatronix, which attacked the process instead of the people involved in it. The company switched to once-a-week deliveries. Shipping costs went up, but inventories went way down, and cash flow improved accordingly.

Communication is critical. Thomas Interior Systems seeks written customer evaluations for all the services it performs—it gets a high level of response, Tom Klobucher says—and it charts the results. A less-than-positive response brings a call from Klobucher or some other manager, "to find out what we might have done better."

As any TQM company would be expected to do, Marlow Industries measures its suppliers' performance—and it also tells them how they're doing. Says Chris Witzke: "It's amazing how quick a reac-

How You Can Learn More About TQM

The U.S. Chamber of Commerce, in conjunction with the George Washington University National Satellite Network, is offering live telecasts of five quality-management seminars to 250 sites across the country.

Videotapes of the seminars, each of which lasts about three hours, will become available soon after the last seminar is telecast May 7. The cost is \$300 per videotaped seminar, plus \$10 for shipping and handling.

To place a credit-card order for one or more tapes, call 1-800-447-3639.

The seminar leaders are dominant figures in the world of quality management. The seminars and their leaders are:

■ "Total Quality Management—Magic Words or Hard Work: A View from the Real World," with J.M. Juran and A. Blanton Godfrey.

■ "Teamwork in the Quality Era," with Peter Scholtes.

■ "The New Economics," with W. Edwards Deming.

■ "Completeness: Managing for the 21st Century," with Philip B. Crosby.

■ "Business and Management—The New Productivity Challenges and Do You Know Where You Belong?" with Peter F. Drucker.

Books by these authorities and others in the field are also available by calling 1-800-447-3639. Among them (all in hardcover unless otherwise noted) are:

■ By J. M. Juran: *Juran on Leadership for Quality* and *Juran on Planning for Quality*, \$37.50 each.

■ By Peter Scholtes: *The Team Handbook*, \$39.

■ By Peter F. Drucker: *Managing for the Future*, \$25.

■ By Philip B. Crosby: *The Eternally Successful Organization*, \$22.95.

■ By Mary Walton: *The Deming Management Method*, \$11.95 (paperback).

■ By William W. Scherkenbach: *The Deming Route to Quality and Productivity: Road Maps and Road Blocks*, \$17.95 (paperback).

The shipping and handling charge for each book is \$4. A catalog of other TQM-related books, videotapes, and audio tapes is also available.

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COVER STORY

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tion you can get just from sending out a letter saying, 'Hey, your supplier index has dropped to 1.1.'

Internal communication is equally important—as much so for a small company like Thomas, with three locations in a single metropolitan area, as for multinational giants. Thomas is combining tighter internal communication with greater autonomy: Its Libertyville and Chicago branches once had to depend on the Elmhurst headquarters to draw up estimates; now, thanks to a computer network, they can draw up estimates on their own, reducing cycle times.

Quality requires training. As the Chamber's Leshar says, "Training budgets in well-managed companies are going to get larger." Among TQM's many benefits, he notes, is that training in quality techniques prepares employees for training of other kinds, by sharpening their understanding of their jobs and their place in the organization. Not just the principles of teamwork and empowerment but also many of TQM's statistical

techniques and other measurement tools can be "quickly grasped" by the average employee, Curt Reimann says.

Marlow Industries does a lot of in-house training, in both work skills and quality techniques—the average employee spent almost 50 hours in training last year—and the training helps the managers as well as employees, Chris Witzke says: "By the time you've taught [a course] three or four times, you begin to believe it."

Thomas Interior Systems already spends an amount equal to 2.5 percent of its total payroll costs on education and training. Last year, Thomas started a formal training program called "Thomas University" for its employees; each employee is required to spend 40 hours a year in training, on company time, mostly learning about other jobs in the company.

"It can be simple subjects that you assume that everybody knows," says Chris Jahns, the operations manager, "but they don't." Scheduled for June at the interiors firm: a training session at which white-collar employees will assem-

ble workstations to learn what the work of installers is like. The training sessions are videotaped so that new employees can catch up quickly by watching the tapes.

As employees attend increasing hours of training, they receive concrete evidence of their accomplishments: Thomas University diplomas, pennants, and sweat shirts.

TQM won't solve every problem and may even create a few. In particular, there's profound disagreement among the experts over how compensation should be determined under TQM—is individual merit pay compatible with TQM, or should pay raises be team-based? At Thomas, Chris Jahns says, "we've talked a lot about how we can link compensation to the things that we say are really important," and they haven't yet resolved the question.

At Marlow Industries, Chris Witzke

Recognizing An Opportunity

Visit a strip shopping center in Naperville, Ill., west of Chicago, and you'll find tucked among the card and gift shops a store called Successories. It looks superficially like its neighbors, but its appeal is not really to the casual shopper. Successories sells things to help make Total Quality Management work.

"The whole premise of the store," says Mac Anderson, who opened it last year, "was to create one place that people could go to improve their businesses."

You'll find in Successories motivational books and tapes; motivational posters on such themes as quality, teamwork, and customer service; note cards bearing inspiring quotations; and plaques, trophies, and medallions by the dozens.

Some of those things—the posters, for example—business people might buy to display for the edification of all their employees. They would probably buy other things—the crystal paperweights, say, the ones etched with such slogans as "Commitment to Quality" and "Winning With Teamwork"—as awards for their most outstanding workers.

Not every expert on TQM advocates awarding such prizes, but many do, and as TQM spreads, the use of what Anderson calls "recognition products" like his will almost certainly spread, too.

Anderson started his current business in 1986. Before that, he owned an incen-



Mac Anderson opened a store, Successories, to help business keep interest in quality alive through inspirational posters and awards for outstanding employees.

tive-travel firm, through which businesses could award trips to their top performers. Some of his customers asked him to design awards, and, he says, "before we knew it, we were doing recognition programs for a dozen different companies." When he sold the travel firm, he started a company to offer motivational products through a catalog called Celebrating Excellence. Successories followed in 1991.

Successories carries everything that's in the catalog, along with a lot of things that aren't. Anderson estimates that products exclusive to his company account for 60 percent of its sales.

The store doubles as a showroom,

serving as a base for four salespeople who fan out to the 24,000 businesses within a 10-mile radius. Anderson says that those sales calls, rather than walk-in traffic, generate the bulk of the store's sales.

Successories has done "perhaps 100 percent better" than he expected, Anderson says, and he is building three more stores in the Chicago area. He envisions 100 stores nationwide by mid-decade, half company-owned and half franchised.

"Someone said that companies spend millions of dollars training people on quality and customer service," Anderson says, "but they spend very little sustaining what they train. That's our job—to keep the message in focus."

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A Blue Chip Checklist

Smaller companies in particular may find it difficult to evaluate themselves on specifics of quality management.

There is, however, a handy checklist that can alert them to some of the basics of quality management and to taking steps toward that goal.

This particular list is part of the application process for the Blue Chip Enterprise Initiative, which recognizes small businesses that have overcome significantly difficult challenges on the road to success.

A criterion in the judging is a company's effective management of resources, and the application material offers some guidelines to help companies describe their achievements in that area.

Any company should find the listing helpful in analyzing its own progress toward quality management and what further actions are needed.

These are the suggested guidelines:

HUMAN RESOURCES

- A total team approach to setting goals and solving problems, including day-to-day interaction among management, employees, retirees, vendors, and/or the community.

- Support of employee welfare, development, and advancement through training, cross-training, and succession plans.

- Effective management of work-force diversity.

- Formal advice to vendors on their roles and on how to manage and track their contributions.

- Innovative incentives to attract and retain key employees.

- Cooperative ventures with other companies in employee development or operations improvement.

- Employee-motivation programs.

QUALITY-ASSURANCE RESOURCES

- Specific procedures for an overall quality approach.

- Companywide goals for constant quality improvement in products and/or services.

- Quality standards and clearly defined purchasing procedures that consistently track and adjust product/service performance to meet customer needs.

MARKETING RESOURCES

- Pursuit of new regional, national, and/or global markets.

- Continual sharpening of the focus on specific target segments.

- Encouragement of innovation and formal processes that hasten product development.

- Alliances and outsourcing in distribution or manufacturing.

- Strengthening of existing customer relationships.

- Tight management of inventories/turns.

- Leveraging of database technologies in customer acquisition or retention.

- Working with core product/service strengths to develop new markets and products in response to shifts in the economy or market environment.

- Development of needs-based selling systems, target marketing programs, etc.

COMMUNITY RESOURCES

- Company/employee/vendor involvement in programs that improve the pro-



PHOTO: BILLYWELLS-UNPHOTO

Training employees for advancement is a mark of quality management.

ductivity, welfare, and viability of the community, such as reducing substance abuse and crime, or supporting educational and transportation needs.

FINANCIAL RESOURCES

- Creative financing practices to support market expansion, fund growth, or compensate for tight credit conditions.

- Business planning based on valuation and maximizing productivity of assets defining short- and long-term goals and creatively allocating assets to achieve those goals.

- Contingency financial planning to survive during inevitable business downturn, loss of key people, etc.

- Preparation for succession or the sale/transfer of the company.

- Credit support or workout arrangements to relieve cash-flow and debt pressures.

- Planning for improved profitability via reduction of debt, taxes, and other expenses.

- Control of receivables.

- Improved cash-flow management.

- Investment strategies to maximize earnings and improve net worth.

TECHNOLOGICAL RESOURCES

- Merger of tools, people, and processes to achieve increased output, timely delivery, and increased cost efficiency.

- Networking and interfacing with suppliers.

TQM
Total Quality Management

says, "as we get more and more team-oriented, we're struggling with how to adequately reward the team, because there are certain people on a team that carry a little heavier load than others."

Hiring can become more problematic, too. What Thomas really needs when it hires an installer, Jahns says, "is a white-collar customer-service representative who's willing to do blue-collar work," and such people are hard to find.

TQM can help you in ways that you may not foresee. Says Thomas' Tom Klobucher: "Our quality process has been the rail that we've ridden on through some very hard, traumatic times." Absent such a steady influence, he says, "you lose your way. Then you're just fighting for survival, you do stupid things, and the results are terrible."

For all its novelty, TQM is really a restatement of bedrock principles that have always helped business people ride through "very hard, traumatic times."

"Empowerment," for example, is another word for delegating authority—and wise business people have always known that it pays to delegate, because delegating unleashes subordinates' energies and frees managers to deal with broader issues.

"It's distilled wisdom," Curt Reimann says of TQM. "Many of the ideas—probably all of the ideas—are old." (It was, after all, nearly 150 years ago that T.C. Haliburton wrote in *Wise Saws* what could be the motto of the quality movement: "An ounce of prevention is worth a pound of cure.")

What's different now, Reimann says, is that "we're trying to link processes to results. In fact, we insist that processes have no purpose but to produce results." To put it another way, TQM is *comprehensive*—it pulls together under one tent a lot of good ideas that have never been so clearly linked before.

When American businesses have mastered TQM, the Chamber's Leshner suggests, the potential will exist for change even more dramatic than what has occurred in other countries.

"We have shown ourselves through the years to be much more adaptable than either European or Japanese business," he says. "Those countries have fairly rigid institutions, but we are very flexible. Combine the TQM discipline with our adaptability, and you can predict the results with certainty."

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To order reprints of this article, see Page 84.

Fleet Management For The '90s

By Julie Candler

Smart business owners are managing their companies' cars and trucks with one eye on their profit-and-loss statements and another on a strategic plan. In turn, their fleet administrators are using computer technology to analyze the impact of their companies' transportation policies on customer service, marketing, and other operations.

"Fleet management has advanced to the point where companies have much greater control over all costs than even five years ago," says Adlore Chaudier, director of consulting services for Runzheimer International, a Rochester, Minn., firm that tracks automotive expenses.

Fleet managers are using computers to identify and control maintenance expenses, he says, and they are communicating more effectively with drivers on matters of safety and operating costs. He

says too that fleet managers are becoming better-educated in their field and are increasingly gaining the support of their companies' accounting and computer departments in efforts to control the costs of operating vehicles for company purposes.

Robert Briggs, fleet manager for Computer Sciences Corp., in El Segundo, Calif., thinks the special fleet-management training he received helps him correlate his company's transportation needs with total operations. "I studied before becoming a Certified Automotive Fleet Manager in 1989. It was under a program of the National Association of Fleet Administrators," he says.

The program focused largely on management matters, giving participants an overview of company operations. As a result, Briggs says, "I think I'm now able to have better communication with the company's legal, financial, and purchasing departments. I have a better understand-

Many firms choose leasing as a cost-effective way to put their employees on the road.

ing of what they are up against, and I can make more cost-effective decisions."

Companies have several options for managing their fleets to get the most from their transportation expenditures. Many elect to own all of their company vehicles—and have the capital to do so. Others use only leased cars and trucks, or have employee-provided vehicles only. Still others create a combination of those arrangements.

Among companies that were surveyed last year by Runzheimer, 51 percent of the businesses reported they leased at least some of their vehicles. The survey also showed that 19 percent of the companies used only vehicles that they owned, 21 percent used employee-provided vehicles only, and 9 percent reported using both company-owned and employee-provided vehicles.

One of the companies that leases its vehicles is Computer Sciences. Fleet



PHOTO: GARY LANGE

Fleet manager Robert Briggs of Computer Sciences Corp. says management training helps in making cost-effective decisions.

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SPECIAL REPORT

manager Briggs obtains most of his company's 390 cars and trucks through the Donlen Corp., a leasing firm in Deerfield, Ill. One advantage in leasing, he says, is that it simplifies cost calculations. That makes billing easier for the firm, which does some of its computer-systems integration on a cost-plus basis.

At the same time, Briggs says, leasing reduces the workload on the three people in the fleet-management department. "We use the leasing company as an extension of our department," he says.

Other benefits of leasing are cited by Robert (Chip) Taggart, newly appointed national director for fleet-management consulting with the firm of David M. Griffith Associates, based in Northbrook, Ill.

Previously, when he was associated with the accounting firm of Ernst and Young, Taggart says, "I did a study for a Maryland company with 600 vehicles." The study suggested, he says, "that leasing was going to be cheaper, and [the company] could turn some administrative duties over to a leasing company."

"I can see a leasing arrangement as an advantage for a smaller fleet of 20 to 30 cars. It helps in managing things like licensing, accident reports, and warranty claims," Taggart says. "A small company doesn't have to worry about [such things] or have anybody who knows about that area."

Some leasing companies, such as Enterprise Leasing Co., of St. Louis, and McCullagh Leasing, of Roseville, Mich., specialize in small businesses, he notes.

According to Barbara Hertler, fleet administrator for General Instrument Corp., two leasing companies are better than one. The Hatboro, Pa., firm manufactures cable-television boxes. The company's 79 cars and trucks, which are used for various purposes, including service calls, are leased from McCullagh Leasing and from United States Fleet Leasing, Inc., of San Mateo, Calif. "Competition is good," she says. "It keeps them both on their toes."

Lessees can get a better interest rate if they elect a floating lease rate, offered by major lease companies. "We are seeing a trend where more and more lessees are going on a floating-rate program because it provides a substantial saving," says Gary Rappeport, president of the Donlen Corp., a Deerfield, Ill., leasing firm. "Our floating rate is tied into the rate we receive for our commercial paper, issued on a monthly basis. Floating rates are almost always lower than the prime rate."

"If rates go up, Donlen and some other companies provide for lessees to lock in a fixed rate based on the prime rate for whatever day they choose," says Rappeport.

Using the skills of a fleet manager to develop an overall transportation plan



PHOTO: GRATIFY ANDERSON

His business is fish, not trucking, says seafood wholesaler Preston Battistella.

paid off for Lowe's Cos., of North Wilkesboro, N.C. The chain of 306 building-materials and home-center stores operates in 20 states, yet until a year and a half ago the company had no full-time fleet manager. "That's why their costs were out of control," says Andy Collins. Since he took over the management of the company's 2,200 cars and trucks, Lowe's has cut \$3 million from transportation expenses, Collins estimates. He expects to save an additional \$2 million this year.

One factor that Collins says helped him cut costs was a new policy of trading in the firm's passenger cars every three years or 70,000 miles. "They were keeping a vehicle well past 100,000 miles," he says, and thus "they got a low trade-in price and heavy repair costs."

Lowe's owns rather than leases its vehicles because "we are a very low-leveraged company and have available capital."

Other cost-cutting tactics for Lowe's include a strict preventive-maintenance program and the use of local independent mechanics. "We find they can do nonwarranty repairs quicker and less expensively than the dealers," says Collins.

Costs of operating the fleet's 900 light trucks, most of them full-size chassis-cab Chevrolets used primarily for delivery of

building materials, are expected to decrease as the firm replaces its gas-fueled trucks with Chevies powered by 6.5-liter turbo diesels. Collins expects the diesels to be much more fuel-efficient than the trucks they will replace.

The diesel trucks will have a seven-year, 150,000-mile replacement cycle. Their gas-fueled predecessors are replaced after five years or 100,000 miles. (Diesel trucks can last longer because, among other things, their engines are built of solid steel.)

Because fleet management has become complicated, some companies whose success requires on-time deliveries by truck are turning over their worries to full-service leasing companies.

"We are in the business of selling fish, not a truck delivery service," says Preston Battistella, president of Battistella's Seafood, Inc., in New Orleans. His main priority is on-time distribution of his merchandise—wholesale fresh fish. If his trucks fail to deliver, then famous restaurants in the French Quarter and elsewhere that depend on him won't have their "catch of the day."

His four Ford F-350 trucks deliver twice daily, mornings for lunch and after-

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SPECIAL REPORT



PHOTO: GUY STRATFORD-BLACK STAR

Lowe's, a building-materials company, has opted to own its trucks, says the company's fleet manager, Andy Collins.

noons for dinner. Two diesel-powered straight trucks, a Ford Cargo CF-7000 and a GMC Topkick, make long runs to fishing grounds to find seafood. They also deliver seafood to the airport for shipment to restaurants nationwide and pick up seafood from the East and West Coasts for customers in the New Orleans area.

For eight years, Battistella has been leasing his refrigerated trucks on a full-service basis from Ryder Truck Rental and

Leasing, in Miami. "If I have a breakdown, a flat tire, or an accident, I can't tell a customer they have to wait until tomorrow," he says. "When a leased vehicle breaks down, we just call Ryder, and they send us new equipment. Or in a matter of an hour they are there repairing it."

Battistella adds: "Every weekend, Ryder cleans up our trucks so they are ready Monday morning. They even supply fuel at about six to eight cents per

gallon less than service stations." Ryder and other large companies of its type can offer lower fuel prices because, as large-volume fuel purchasers, they can obtain discounts from suppliers.

The desire to concentrate on customers instead of transportation needs led the Terry Lumber company of Tarzana, Calif., to elect full-service leasing. The firm promises to deliver lumber and building materials on time to construction sites where carpenters are waiting.

"Most companies that try to take care of their transportation needs don't do a good job because they don't specialize in that," says Lee Krueger, the firm's former controller, who now manages one of its 15 retail stores. "Before we went to full-service leasing, we weren't doing it as well as a professional could," he says.

So Krueger worked out a full-service contract with PACCAR Leasing, also known as PacLease. Terry Lumber leased three Peterbilt 377 tractors and 19 Peterbilt Class 7 flat-bed trucks. The lumber company also operates some trucks of its own.

"Now, instead of calling around and trying to find a mechanic available in case of a breakdown, we just call PacLease, and they come out," says Krueger.

He believes that the program with PacLease will save at least \$100,000 in maintenance costs over the seven-year lease period. In addition, he says, "it is saving us a ton of money that we can use for working capital, not for trucks that depreciate."

The arrangement also saves staff time. "Now, we only write one check for maintenance," Krueger says. "PacLease also repairs the company-owned vehicles under the maintenance agreement."

Douglas Slack, Ryder's vice president

Where To Turn For Vehicle Leasing

The largest truck-rental companies in the U.S. include these four:

■ **Penske Truck Leasing Co., LP**, Route 10-Green Hills, P.O. Box 563, Reading, Pa. 19603-0563; (215) 775-6000.

■ **Rollins Leasing Corp.**, P.O. Box 1791, Wilmington, Del. 19899; (302) 426-2700.

■ **Ruan Transportation Management Systems**, 666 Grand Ave., 3200 Ruan Center, Des Moines, Iowa 50309; (515) 245-2500.

■ **Ryder Systems, Inc.**, 3600 N.W. 82nd Ave., Miami, Fla. 33166; 1-800-952-9515, extension 132.

For information on other truck-leasing companies, contact Peter Vroom at the Truck Renting and Leasing Association, 2011 Eye Street, N.W., Suite 500, Washington, D.C. 20006; (202) 775-4859. The association represents 95 percent of the more than 3,000 truck-leasing facilities nationwide.

Major automotive fleet-leasing companies, according to the National Associa-

tion of Fleet Administrators, include:

■ **Associates Leasing, Inc.**, 2728 Coho St., Madison, Wis. 53713-4532; (608) 271-8944.

■ **ARI (Automotive Rentals, Inc.)**, 9000 Midlantic Drive, Mount Laurel, N.J. 08054; (609) 778-1500.

■ **Donlen Corp.**, 500 Lake Cook Road, Deerfield, Ill. 60015; (708) 831-0400.

■ **Enterprise Rent-A-Car**, 35 Hunter Ave., St. Louis, Mo. 63124; (314) 863-7000.

■ **GE Capital Fleet Services**, Three Capital Drive, Eden Prairie, Minn. 55344; (612) 828-1000.

■ **McCullagh Leasing**, 30803 Little Mack Ave., Roseville, Mich. 48066; 1-800-521-7850.

■ **PHH FleetAmerica**, 307 International Circle, Hunt Valley, Md. 21030-1337; (410) 771-1900.

■ **United States Fleet Leasing**, Two Waters Park Drive, San Mateo, Calif. 94403; (415) 572-2000.

■ **Wheels, Inc.**, 666 Garland Place, Des Plaines, Ill. 60016; (708) 699-7000.

■ **World Omni Leasing, Inc.**, Commercial Division, 800 Fairway Drive, Suite 250, Deerfield Beach, Fla. 33441; (305) 360-4800.



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SPECIAL REPORT



PHOTO: SCENEY LOG—BLACK STAR

Salespeople use their own cars at Merkert Enterprises, a food brokerage, says Sidney Rogers, vice president for administration.

for marketing, says full-service leasing is the largest service that the company offers and that its customers' average fleet is four to five trucks.

For companies now doing their own fleet maintenance, Slack points out, full-service leasing could eliminate the headaches of dealing with federal regulations concerning fuel storage tanks, the disposal of tires, hazardous wastes, and used oil.

The use of employee-provided vehicles is yet another method that some companies are adopting to cut fleet costs. A system coordinated for some firms by Runzheimer International enables employees to receive nontaxable reimbursements for the use of their own cars, as long as Internal Revenue Service guidelines are followed. The plan is outlined in a section on Fixed and Variable Reimbursement under 1990 IRS Revenue Procedure 90-59.

Sidney Rogers, vice president for administration of Merkert Enterprises, in Canton, Mass., says the system has been saving money for his food-brokerage company since January 1991. The firm's 700 salespeople own the vehicles that they drive on company business. Says Rogers: "We believe that the driver who owns the vehicle takes better care of it."

The salespeople can choose any vehicle to use on company business as long as it's appropriate for that purpose (no pickups for salespeople, for example.) Each salesperson must keep detailed records of his

or her car use; the reimbursements are based on annual mileage and the territory in which the employee drives.

"Our reimbursements average around \$310 per month, plus 8½ to 12 cents per mile," says Rogers. The reimbursement is based on regional costs of maintenance, gasoline, oil, and repairs. When gas prices fluctuate, the allowance is adjusted. (Because they are late-model cars, major repairs usually are covered by warranties.)

Under IRS guidelines, Rogers' company adopts a "standard vehicle" each year. Currently, it's a 1992 Ford Taurus GL four-door sedan. Employees are expected to drive late-model vehicles, no more than four model years older than the standard vehicle. The auto's value when new must be at least 90 percent of the standard vehicle's.

Emphasizing safety can also save money, many fleet managers have concluded. The National Association of Fleet Administrators (NAFA), based in Iselin, N.J., finds that two out of every three U.S. companies are acquiring vehicles with air bags.

Three out of five companies are also looking at anti-lock brake systems.

David Lefever, NAFA's executive director, says: "The brakes give better control of the car, and today a little accident can cost thousands. Anti-lock brakes also increase the resale price."

Employees driving cars equipped with air bags should always fasten the combination lap-and-shoulder belt. An air bag

alone has an effectiveness rating of only 18 percent for an unbelted driver, according to a crash analysis by General Motors Corp. The effectiveness of the lap/shoulder restraint is 42 percent, and the figure for belts combined with air bags is 47 percent.

Now that her company is ordering anti-lock brakes for its 200 vehicles, Pat Webster of Advanced Care Products, a Raritan, N.J., pharmaceutical firm, believes that "we are probably having fewer minor accidents."

Whether a company leases or owns its vehicles, David Lefever of NAFA says, "this is a good time for fleets to negotiate a good deal with the dealer and manufacturer, or with the leasing company."

One businessperson whose transportation strategy includes buying now is Bert E. Jessup. His firm, in Gilroy, Calif., delivers fresh flowers all over the state in refrigerated, 26,000-pound gross vehicle weight straight trucks and other large trucks, the Class 8 weight category. "Last year, we were up \$100,000 on our maintenance costs because of big repair bills," he says. "And we know that with our big Class 8s the transmissions and rear ends will go pretty soon. So we have to make a point of getting rid of them."

"Besides," he adds, "many of the new trucks have 500,000-mile warranties and 700,000-mile warranties on some parts. You're crazy not to go with new equipment right now."

Buying Groups Deliver Discounts

By Christopher Rauen

When Jessie Karadsheh opened Filco in the early 1970s in Sacramento, Calif., he didn't command the buying clout of larger, established appliance and electronics retailers. To keep his prices competitive, he would drive 350 miles to Los Angeles on weekends and shop for the lowest prices and best terms to fill thousands of dollars'

initiation fee upon joining and then pay monthly, quarterly, or annual dues. For small retailers, initiation fees can range from a few hundred to a few thousand dollars. Rebates generally depend on the volume of purchases. And some buying groups require members to make minimum purchases.

Through buying-group memberships,

Small firms use buying clubs to get merchandise discounts that they typically could not negotiate on their own.

ture, a buying group based in Salem, Va., says Star gives small retailers access to prices comparable to those available to large chain furniture stores. "Buying groups offer the only way for the independent merchant to compete," says Blevins. Star charges members monthly dues of \$100 to \$200, depending on store size. The rebates that members receive on orders average 2 to 5 percent, with some rebates reaching 10 percent.

Manufacturers too reap certain benefits from buying groups. Mel Hunger, a former marketing executive for consumer electronics companies and now president of Key National Corp., the parent company of the Key America buying group in Wayne, N.J., says that buying groups help manufacturers expand distribution while reducing costs. "The small retailer is becoming more difficult to approach due to rising costs," he says.

But buying groups do more than just save money. "My primary benefit is the sharing of information with other successful retailers," says Ed Knodle, owner of Knodle's Appliance and Electronics Center, in Sycamore, Ill. He is a member of Select Business Associates, a buying group based in Winston-Salem, N.C.

In addition, many buying groups offer their members training sessions and educational seminars. Duke Bloom, president of Duke & Slim's, a retailer of consumer electronics and appliances in Lancaster, Calif., learned how to comply with a new federal safety regulation by attending a seminar sponsored by his buying group, Key America. "When I first heard about the law," says Bloom, "I never thought I'd have the store ready for it."

The regulation, issued by the Occupational Safety and Health Administration, required that employees receive instruction on workplace safety. The buying-group seminar interpreted the compliance requirements so that Bloom could implement the rule effectively.

Darrell Chabino, owner of Sight & Sound, an Oklahoma City retailer of consumer electronics and appliances, says that his buying group, Nationwide, based in Pittsburgh, helped him boost margins. A group member told Chabino how he could almost double his margins on home audio equipment.

"Before joining a buying group, we were at the mercy of the manufacturer and distributor," says Chabino. "Now, we



By using a buying group, appliance and electronics retailer Tony Saca of Sacramento, Calif., gets competitive prices and rebates on merchandise.

worth of orders. On Sundays, he would deliver the merchandise to his customers.

Today, through Filco's affiliation with the Selective Consolidated Dealers Co-Op (SCDC), a buying group in Glen Ellen, Calif., Tony Saca, Karadsheh's partner, buys competitively priced goods without leaving town. The buying clout that Saca gets from SCDC allows Filco to obtain prices and terms from manufacturers comparable to those of the largest retail chains.

Buying groups are helping retailers of all sizes, but they are especially useful for small retailers. Members usually pay an

retailers get merchandise discounts or rebates that they typically could not negotiate on their own. For Filco, rebates on major appliance lines through SCDC range from 4 to 6 percent of total purchases. "We received over \$100,000 in rebates from Amana last year," says Saca, "and about the same from General Electric."

Buying groups operate in industries ranging from hardware to medical supplies. They are most active in competitive retailing businesses such as appliances and consumer electronics. In these areas, buying groups help members expand product selection and improve their standing with manufacturers.

Don Blevins, president of Star Furni-

Christopher Rauen is a free-lance business writer in Manhattan Beach, Calif.

PURCHASING



The "primary benefit" of buying-group membership for appliance dealer Ed Knodle of Sycamore, Ill., "is the sharing of information with other successful retailers."

know more about the different programs that are available. Working together, we can definitely get better deals."

Buying groups also can enable small retailers to offer next-day delivery of goods anywhere in the country, says Chuck Stadell, president of Paramount Stationers in Paramount, Calif. For example, when Stadell receives an order

dous opportunity" in home-office products but didn't want to tackle that market alone. So he joined the North Carolina-based Select Business Associates because of its computer and home-office division.

Other retailers affiliate with different groups for different markets. Ron Inkley, owner of the Inkley's retail photo and electronics stores, based in Salt Lake

City, belongs to two buying groups—the Marta Cooperative of America, in Scottsdale, Ariz., for consumer electronics products, and the Photo Research Organization, in Fairfield, Conn., for photographic equipment and supplies.


Buying groups also can help retailers expand product lines or departments. Appliance retailer Knodle, in Illinois, describes the time that he wanted to pursue a "tremen-

City, belongs to two buying groups—the Marta Cooperative of America, in Scottsdale, Ariz., for consumer electronics products, and the Photo Research Organization, in Fairfield, Conn., for photographic equipment and supplies.

Although many members tout the benefits of buying-group affiliation, only a minority of small retailers have joined. In the office-products' marketplace, for example, fewer than 15 percent of respondents to a 1991 survey by the trade magazine *Office Products Dealer* said they belonged to a buying group.

A 1989 survey by Intercounty Appliance Group, an 82-member regional buying group based on New York's Long Island, found that only 300 of 1,600 appliance dealers in three Eastern states belonged to a buying group.

Some retailers just aren't familiar with buying groups. Others aren't interested. Yet many group members contend that without the purchasing leverage they get from buying-group affiliation, they couldn't survive in an increasingly competitive marketplace.

 To order reprints of this article, see Page 84.

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How To Pick A Buying Group

Carefully evaluate a buying group before joining. Try to arrange a trial membership for the first year. Keep in mind that buying groups differ greatly. Many restrict membership by geographic area, or sales volume, or both. The questions below can help you select a group that fits your company's size and needs:

■ How many years has the group been in operation? How does it calculate rebates or discounts? Does it have minimum purchase requirements? Are there any charges in addition to initiation fees and monthly or annual dues?

■ Does the group's mix of products complement yours? Does the group require you to buy certain products? How much flexibility would you have for negotiating purchases on your own?

■ Does the group offer warehouses for storing merchandise? Does it offer private-label merchandise?

■ Does the group offer members educational or marketing services, credit cards, health insurance, product catalogs, advertising, or other marketing support?

■ Does the group hold annual meetings featuring educational seminars and booths for vendor displays?

Making Progress In Transportation

By John S. DeMott

As federal policy-makers consider long-term approaches to transportation systems, grass-roots innovators begin rebuilding.

The words "crumbling" and "infrastructure" are inevitably joined in U.S. political and economic discourse.

No wonder. The decline of the nation's highways, bridges, tunnels, transit systems, and airports has been documented for over a decade.

The total bill for bringing transportation facilities up to today's needs is calculated in hundreds of billions of dollars at a time when cities, states, the federal government, and much of the private sector are struggling with recession-caused revenue shortages.

But while stiff taxpayer opposition has developed to higher government spending for government operations generally, infrastructure rebuilding commands growing support as both an immediate economic stimulus and a long-term investment.

In the long-range view, economists and transit experts say that U.S. productivity and competitiveness will swing on how well the country can move people, materials, and goods to domestic and global markets.

Top federal policy-makers are a long way from agreement, however, on any detailed plan for a broad approach to restoring the overall infrastructure. Various proposals are pending in Congress, and President Bush lists infrastructure restoration as a high national priority, but the larger debate on a specific approach remains to be resolved.

Nevertheless, some progress is being made. Those initiatives, analysts note, involve not only money but also the creativity and technological innovation needed to reconcile a nearly unlimited need with limited resources to meet it.

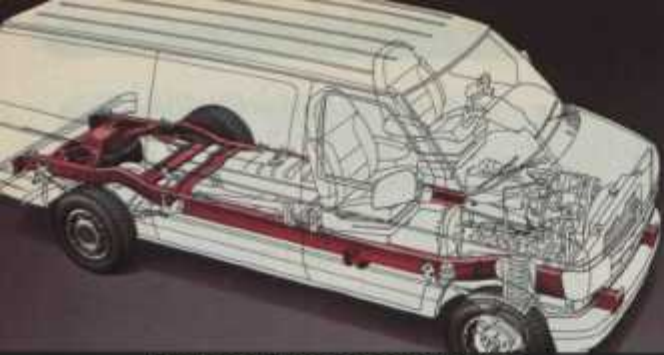
At the national level, the massive transportation bill enacted last year not only provides record funds but it also sets up innovative arrangements for cooperation among federal, state, and local governments and private sources—letting each do more than ever with transit resources.

When the legislation came up for a vote in the House of Representatives, Rep.

Maglev trains, like this one in use on a test basis in Japan, use magnetism to hover over a steel track.



PHOTO BY AP/WIDEWORLD—THE BUREAU OF NEWS



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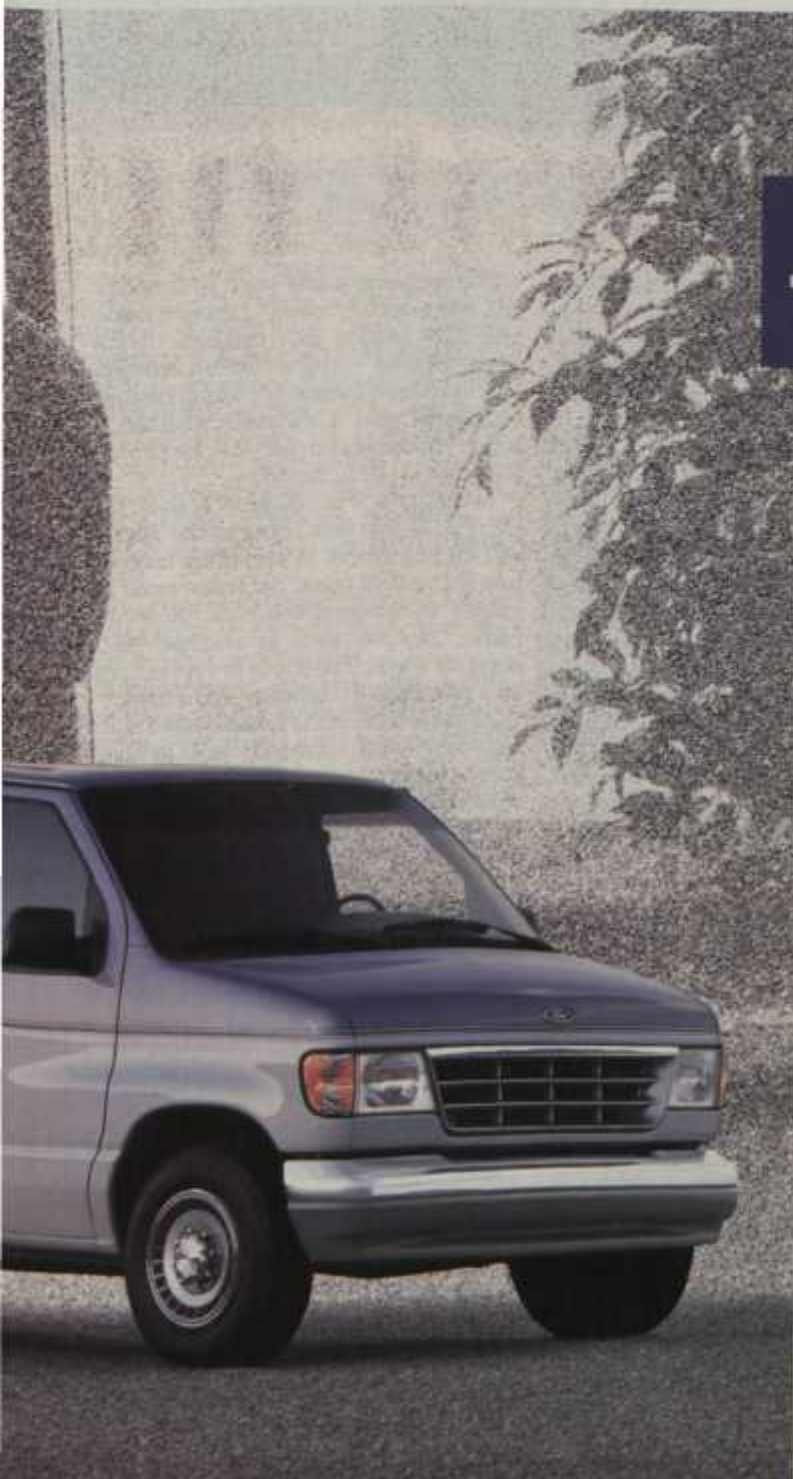
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Bud Shuster, R-Pa., one of its chief architects, declared: "The American people in the 21st century will look back on what we do here today as the foundation upon which an integrated transportation system will be built for the next century."

The law changes dramatically the structure of how federal transit dollars are used. It distributes them more flexibly, taking the environment and a host of other factors into consideration.

The bill, says Dick Mudge of Apogee Research, a public-works consulting firm in Bethesda, Md., "recognizes that the key thing is to get the job done, taking advantage of whatever financial resources you can find, from whatever source." It also recognizes that "the public doesn't want to do things the same old way."

For the first time in any federal road legislation since 1916, the bill has some "very good things to stimulate public-private partnership," says Bill Allen, president of Parsons Brinckerhoff Privatization Inc., the New York subsidiary of the Parsons Brinckerhoff engineering firm. Up to half the cost of a road project, for example, can be lent from federal dollars by a state to, in the law's words, "a public or private agency constructing a toll facility." The money can be paid out of tolls or through other means.

The other half of the cost can come from almost anywhere else—issuances of stock, private placements, and tolls—a dramatic departure from previous policy that officially discouraged toll roads.

Ralph Stanley, former administrator of the Urban Mass Transit Administration, says the legislation will "touch off a whole new industry" by encouraging private investment in bridges, tunnels, and roads. "I almost fell off my chair when I read it," he says. "I couldn't believe it got in." Stanley heads a private Virginia company that is building a 14-mile toll road from Leesburg to Dulles International Airport. The \$300 million for the project is being raised through private placements arranged by the Goldman Sachs investment house.

And for the first time, the bill allows state transportation departments to spend federal dollars as they choose, with an important caveat: The state agencies must draw up "strategic plans" and demonstrate that they are turning their efforts to overall transit needs.

"It's going to make a big difference in the way the [states] operate," says Sarah Campbell of the Surface Transportation Policy Project, a highway lobbying and research group in Washington, D.C.

And the bill goes further. Recognizing that the 36-year-old interstate system is 99 percent completed, the new law allocates only \$8 billion for interstate completion but earmarks \$21 billion for 150,000 miles of a "national highway system."

The system would be made up of the



PHOTO: GVAUGHN—TOM STACK & ASSOCIATES

The light-rail system in Portland, Ore., can carry 400 people—or squeeze 500—in two cars. The system links the central city with Gresham, a suburb.

current interstate network plus about 106,000 miles of arterial roads to be designated by the states for expansion. But up to half of the money can be used, at state discretion, for nonhighway purposes such as mass transit.

To stop the infrastructure from crumbling, many billions of dollars are earmarked for maintenance—\$16.6 billion alone for the interstate system and about \$16 billion for inspection, maintenance, rehabilitation, and replacement of bridges outside the system. The new bill authorizes almost three times more for maintenance than the last.

The bill reaches into every cranny of American surface transportation. It sweeps from Arkansas, where it permits training of workers in traffic-control devices, to Los Angeles, where it authorizes federal funds to help pay for the third segment of the Metro Red light-rail system.

The measure would pour \$659 million into research for "smart" cars and roads, and \$725 million into magnetic levitation—"maglev"—rail for which consortiums have been formed to build systems in Pittsburgh and California. Another is being contemplated for the Baltimore-Washington, D.C., corridor.

In Orlando, Fla., Maglev Transit Inc. plans a 13-mile link between the airport and Disney World. Hovering by magnetism over a steel track, the trains could hit speeds in excess of 300 mph. On longer hauls, they are seen as alternatives to some air travel. The trains are operational on a test basis in Germany and Japan.

About \$75 million is funneled into other high-speed rail research and development, such as using conventional steel wheels on rails at high speeds. The idea is to emulate Japan's Bullet Train or the French TGV (abbreviation of the French for "train of great speed"), a version of

For More Information

The Intelligent Vehicle Highway Society of America focuses on research and development of intelligent vehicle/highway systems. The society invites inquiries from business people interested in any aspect of IVHS as well as in membership in the society. Call or write the organization at 1776 Massachusetts Ave., N.W., 5th Floor, Washington, D.C. 20036-1993; (202) 867-1202.

Smart Materials and Structures is a quarterly scholarly journal that reports on current studies in the field. The journal is published by the Institute of Physics in England.

The editor in chief, Vijay Varadan, a professor of engineering science at Pennsylvania State University in University Park, says all articles are contributed and reviewed by scholars in the field.

The journal is available at libraries or by subscription from the publisher. For information on subscribing, write to Dr. John Haynes, Journal Editorial Manager, IOP Publishing Co., Techno House, Redcliffe Way, Bristol, England BS1 6NX.

which in early 1991 hit 320.4 mph and became the fastest train ever.

In the U.S., Texas High Speed Rail Corp., of San Antonio, plans to start construction in the late 1990s on a \$6.8 billion, 700-mile rail link connecting Dallas, Houston, Austin, and San Antonio. Called the "Texas TGV" and engineered by Morrison Knudsen Engineers, of Boise, Idaho, the project is backed by the state High Speed Rail Authority. Trains are expected to reach 200 mph.

Smart Roads, Smart Cars

These new directions in government policies are complemented by technological advances in dealing with infrastructure problems, particularly in highways.

One sign of that development is the existence of the Intelligent Vehicle Highway Society of America, its title derived from a term coined less than five years ago.

The 2-year-old membership organization, based in Washington, D.C., is already a factor in the federal government's highway-policy deliberations. In a proposal to the U.S. Department of Transportation, the society declared that it envisions a shift from "the innovative construction and manufacturing technologies that dominated 20th century transportation development" to "a new interdisciplinary merging of transportation and information technologies." The society's goals over the next decade include:

- On-board electronics in vehicles to help drivers plan and follow safe, efficient routes;
- Communications systems that advise drivers about traffic conditions, road hazards, weather, and parking;
- Management systems that adjust lane usage, speed limits, traffic signals, and roadway access according to traffic conditions;
- Systems that allow tolls to be collected, trucks to be weighed, permits to be issued, and cargoes to be checked without requiring vehicles to be stopped;
- Instrumentation to warn drivers when they are following too closely; to obtain information, via control-panel readouts, from the roadside; and to call for help in emergencies.

Over the next two decades, the plan anticipates:

- A national system of travel-support technology;
- Unprecedented cooperation between the public and private sectors in creating and delivering the systems to implement a mobility revolution;
- A vigorous intelligent vehicle/highway system (IVHS) industry supplying both domestic and international needs.

There are now 16 IVHS experimental projects under way. They include TravTek, in Orlando, Fla., an outgrowth of the Pathfinder project on the Santa

Monica Freeway in Los Angeles. TravTek was launched with the participation of the General Motors Corp., the city of Orlando, the Florida Transportation Department, the American Automobile Association, and the Federal Highway Administration.

Under the \$8 million demonstration project, cars are being equipped with computer-based systems to tell motorists exactly where they are and how to get where they're going.

Other participants in IVHS are Motorola, the Massachusetts Institute of Technology, the University of Michigan, and the University of California at Berkeley.

Renting one of TravTek's 100 Olds Toronados from Avis, a stranger to the Orlando area can display a menu of locations on a small dashboard-mounted TV monitor. To find an ATM, move the cursor to "bank" on the menu and punch a button. Up pops a map showing the closest one. Touch a button marked "routing" for a map. A star shows the destination, and a cursor shows the car's position. An arrow directs the driver to the destination, indicating turns and lane changes.

Bill Spreitzer, director of IVHS at

cheaper, at least for now, to make better use of existing highways than to build more roads. More than 30 state transportation departments have formal IVHS programs. The goal is to bring efficiency to the movement of the nation's 135 million cars, whose average speeds are slightly above zero at rush hours around metropolitan areas.

A Material Question

"Asphalt chemistry" is very much on the minds of the researchers at a Washington, D.C., organization called SHRP—the Strategic Highway Research Program. SHRP, founded in 1987 and a unit of the National Research Council, is a five-year, \$150 million examination of, among other things, why asphalt and other paving materials behave the way they do under conditions of weather and weight.

No one really knew the answers before SHRP undertook the study. The industry had simply operated on its experience of what had held up after decades of use. But "infrastructure doesn't have to crumble," SHRP begins its 1991 annual report. "The concrete foundations of the Pantheon and



PHOTO: SHARP MOBILE—GAMMA LIAISON

The Pathfinder project to aid motorists on the Santa Monica Freeway helped pave the way for other intelligent vehicle/highway system experiments.

GM's Tech Center in Detroit, says TravTek is a step toward the automated highway. Most driving in the 21st century will be done by people, he says, but around cities, sensors and computers will take over, pacing traffic efficiently, saving fuel, cutting costs, and reducing stress.

The IVHS industry is also working on night and bad-weather vision enhancement, and "in-vehicle" navigation systems.

Technology from AT&T and Vapor Canada Inc. lets drivers use AT&T's "Smart Card" to pay bridge and tunnel tolls. An AT&T card is placed in a small, dash-mounted box, which sends a signal to a roadside antenna, automatically debiting an account—all in milliseconds.

The rationale for all the activity: It's

the Colosseum have survived thousands of years."

Determining why asphalt behaves the way it does led SHRP researchers to build a dramatically different chemical "model" for the material. For the first time, it explains why asphalt cracks at low temperatures and how it can be blended to stop faults.

The equipment to test how asphalt's chemical properties relate to performance is expensive. Some of it, with constantly spinning wheels to approximate long wear, is in use at Oregon State University. So SHRP is working on a simpler method to reconfigure asphalt so it can be used more quickly by highway agencies.

It's not inconceivable, says Damian Kulash, SHRP's executive director, that

TECHNOLOGY

SHRP's studies could lead to economical ways to make asphalt roads last 40 years—about twice as long as the most durable ones last now. The next step, he says, is to begin setting up about 100 sites throughout the U.S. for testing paving materials for rutting, moisture susceptibility, and fatigue.

Other research is under way on the potential of so-called smart materials that would, among other things, contain sensors for detecting problems well before they would become apparent through conventional testing procedures. In advanced applications, these materials

A \$1 billion expansion of the Greater Pittsburgh International Airport will enable the facility to serve 32 million passengers annually.



PHOTO: T. MICHAEL BEZA

would even have a built-in technology that would initiate repairs or take other corrective action to offset faults.

At the Architectural Research Center at the University of Illinois at Urbana, for example, Associate Professor Carolyn Dry is experimenting with self-sealing concrete. She says concrete is permeable and brittle, which causes it to break up or corrode over time. She is working with smart materials that can sense when changes such as corrosion are imminent and then can act to prevent them. Dry compares the chemical action to that of a time-release capsule. "In terms of infrastructure," she says, "passive smart materials sense and fix corrosion where and when they are needed."

Trains, Planes, And Automobiles

The light-rail system in Portland, Ore., has run from the central city to Gresham, a suburban area about 10 miles to the southeast, for about five years. A \$944 million extension to the west is now being laid, in part with \$113.6 million in money from the Oregon State Lottery. The first train is expected to run in 1998. The system's existing stretch carries about 25,000 passengers daily; 30,000 are expected to ride the new link.

One big advantage of rapid rail, says Eric East, chief planner of the Oregon Public Transit Division, is sharply reduced labor costs, which account for about 75 percent of any transit system's service

budget. "You can carry more passengers per unit of labor on a light-rail system than a bus system," he says. "Up to 500 people on a two-car train with one operator. Well, that's squeezing it. Make it 400." Oregon can use the hauling capacity. Immigration to the state, principally from California, is running at 6,000 people a month.

The 22.5-mile Central Light Rail line in Baltimore will link communities north and south of the city.

The airways too are seeing changes. Not since planes began taking off from Dallas-Fort Worth Airport nearly two



decades ago has a major, from-the-ground-up airport been built in the United States. But one is going up now, in Denver, replacing outmoded Stapleton.

Scheduled for partial completion next year, Denver International Airport will be 53 square miles and eventually will load 110 million passengers annually through 200 gates. It will cost \$2.4 billion.

The project is designed and managed by Greiner Engineering, of Irving, Texas, and by Morrison Knudsen Engineers. Greiner Engineering, with 1990 revenues of \$111 million, also is working on Hong Kong's \$4.1 billion airport.

The Denver airport is being designed on computers, in what's called computer-aided design and drafting, or CADD. The team expects to create and monitor as many as 25,000 construction drawings.

Unlike Denver's airport, Greater Pittsburgh International Airport isn't all new, but it might as well be. An ambitious \$1 billion expansion program, including an

expressway, is under way, with a scheduled October opening.

By the turn of the century, the airport is expected to handle 32 million passengers annually—up from 1.1 million in 1953, when the original facility opened.

On the ground, Seattle's traffic problem was no different from that of most other cities: too many vehicles competing for too little street space. About 500 buses moved 21,000 people in rush hour. They moved smoothly until they hit the central business district and squeezed into an hour-glass shape confined to five thoroughfares, bounded by Puget Sound on the west and Interstate 5 on the east.

In the late 1970s, planners figured that by 1990 it would take 100,000 cars 25 minutes to travel the 1.3 miles through downtown, creating pollution and a bottleneck that would back up traffic far away in King County.

Voters 20 years earlier hadn't approved rail rapid transit by the required 60 percent margin, and by 1980 there wasn't enough money in federal coffers for a \$1 billion downtown rail system anyway. So Seattle built on its bus base.

The city ordered America's first diesel-electric buses from Renault and, 18 months ago, sent them running through two 5,000-foot, L-shaped tunnels under the city. Designed by Parsons Brinckerhoff Quade & Douglas of New York City, the tunnels cost \$476.6 million.

Above ground, the vehicles move under diesel power; below, they run on electricity, eliminating fumes. By 2000, the system will carry 40 percent of all downtown bus trips, relieving the surface of that much congestion. What's more, Seattle is prepared to install that rail system someday: Tracks were laid parallel to the subterranean bus lanes.

Thus, while the issue of vast infrastructure development continues as a subject of high economic-policy debate in the nation's capital, innovation and technology at the grass roots continue to assume a growing role in this key area.

That activity is being looked to for significant assistance in implementing the policy set forth in the landmark transportation legislation enacted last year: the development of a system "that is economically efficient, environmentally sound, provides the foundation for the nation to compete in the global economy, and will move people and goods in an energy-efficient manner."

(Other aspects of the infrastructure, such as water-supply and treatment systems, will be covered in a future article in Nation's Business.)

John S. DeMott is a free-lance writer in Alexandria, Va.

Computers Find Their Voice

The computer chip has become the central device in a complex web of information exchange.

By Ripley Hotch

Remember HAL? The talking computer in Stanley Kubrick's film "2001" godfathered the generation that created the personal-computer revolution. In the years since, everyone's dream has been to talk to the PC in plain language and have it understand and carry out every whim.

We're getting closer, although we are still probably a decade away. But speech is only one of the many ways to "talk" to computers. We have other avenues of communication that no one believed could be made practical until a few years ago.

As computers become more common, they are being adapted more subtly and effectively to real needs.

The computer chip has become the central device in a complex web of information exchange. Even the human hand is not always essential, says John Diebold, industry analyst for 35 years and head of the Diebold Group, a management consulting firm in Bedford Hills, N.Y. "We are already at a point where inanimate objects communicate with each other—vehicles, dispatching systems, factory robots, PCs communicating with mainframes," he says.

Companies are creating a plethora of techniques and devices that collect information and allow it to be sent on. Many of these information-exchange technologies are PC-based and relatively inexpensive, making them attractive to small firms.

Hand-Held Computers

Desktop computers are bulky and immovable. It's hard to believe that the movable-computer market is only a few years old. It began with the Compaq "luggable" seven years ago and evolved through miniaturization into the laptop (8 to 15 pounds), then into the notebook (4 to 7 pounds), and now the hand-held computer (8 ounces to 3 pounds).

Each of these machines has special uses, and the notebook has quickly become the hottest computer market. Notebooks let people carry work with them and do it almost anywhere, putting the office where the businessperson is rather than the other way around. When connected to desktop computers by modem, the notebooks can tap into the network of communications services, downloading and uploading data as capably as any large machine.

Moreover, they can operate through



PHOTO: STEVEN REICHER



Systems like the one in the AT&T mailroom above allow the operator to enter information by simply speaking into a microphone. At left, a United Parcel Service driver uses a Delivery Information Acquisition Device, a computer "clipboard" that helps track package deliveries.

cellular and other radio phones to tap into a network through a service like Ardis (a joint venture of IBM and Motorola), making it possible to communicate almost anywhere.

The next size down, the hand-held computer, promises a revolution as profound as the pocket calculator. Hewlett-Packard, Atari, and Poquet were the first to reach the market with these computers, and they have since been joined by Psion and Tandy. The earliest of these machines were simple schedulers and note-takers, but the latest versions are fully functional computers.

United Parcel Service, for example, uses a simple version of hand-held com-

puters to keep track of deliveries and times. Delivery drivers can use any kind of object, including their fingers, to punch in data—the computers are much like the cash registers in fast-food outlets.

Pen Computers

Rather than talk to their computers, many users would like to write into them, and that is what the stylus-on-glass "pen-entry" systems allow.

Pen computers are for limited data entry and for pointing to choices from a menu (usually called "command and control"). Graphical user interfaces, in which programs and files are represented by small icons you "point" to, are well-suited

"I'm no idiot. I can see that 3,000 visitors a day at \$10 a head adds up. I can only imagine how much they make from food sales and other stuff like those life-size posters of yours truly. All I ask is that they take good care of all that money that I'm working so hard for."



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for the stylus or computer pen. Users can make choices from a menu screen, fill in on-screen forms with data, and refer to manuals that are too bulky to carry otherwise.

D. Bruce Walter, president of GRiD Systems, in Fremont, Calif., a major manufacturer of pen computers, says these machines are aimed at the 20 percent of the U.S. work force that spends much of the workday walking or standing. "These walking and standing workers will never use traditional desktop or laptop computers. But their productivity can be greatly increased if they can use a computer while on their feet."

In March, GRiD introduced its PalmPAD, calling it "the world's first wearable pen computer." The machine has rugged construction and lots of memory, and it straps onto the user's wrist. It is intended for data collection in the field.

At a list price of \$2,895, it's more expensive than an equivalent desktop system, but it and the other hand-held computers certainly put the locus of computing outside the office. The time saved in data collection—especially in a world where Total Quality Management (TQM) is becoming so important—can far outweigh the cost of the equipment.

Poquet Computer Corp., in Santa Clara, Calif., has introduced its PoquetPad for "walking workers." It is \$1,995, weighs only 1.2 pounds, and runs on AA batteries for up to 16 hours.

Scanners

Automating dreary and time-consuming tasks cuts down on error and costs. Instead of having a clerk or typist key in typed material, many offices are now turning to scanners, which transfer text into a word processor.

Scanner technology will copy not only text but also images, which can then be put into documents. The software can recognize whether a document is text.

Combining Different Devices

Not all methods of talking to the computer require new hardware. A surprising innovation in software comes from Cardiff Software, in Solana Beach, Calif. Teleform for Windows combines character recognition, the fax machine, and the computer. It works like this: You draw a form in the software, which you can then fax to another location. There, the recipient fills out the form in block letters and faxes it back to the originating computer, which then enters the filled-in data.

The company's founder and president, Joseph C. Larson (who also founded Great Plains, the accounting-software company), says he put together some obvious facts: "There are 30 million fax machines in the country. People in the real world like to write on paper. This software allows a medium-sized or small

business to be as efficient in data entry as a large one."

Teleform for Windows is \$995 and requires a fax board. Putting together solutions that use the fax is a field that is just starting to explode, Larson says. There are obvious uses in airlines, medical offices, insurance, and any other field where material is entered by forms. By cutting out a separate entry step, companies can save time and money and can reduce errors.

Xerox recently announced document-management software, Paperworks, at \$249.95. It allows users to send and receive documents between a PC and a fax machine at a remote location, and to use a fax machine to request forms and documents directly from a PC.

Wave Your Magic Wand

Chris Curtis, director of the Washington University School of Technology and Information Management Laboratories, in St. Louis, is a specialist in data-collection devices. These include bar-coding, automatic identification, and pen entry, plus an odd little device known as "touch memory."

Touch memory resides in a tiny battery that holds 512 kilobytes of memory—about as much as a good-sized book. All you have to do is touch the positive and negative poles, and the memory reads out.

It can be altered in various ways.

"Touch memory could have detailed information about what is in an inventory item and be attached to the item," says Curtis. Touch-memory batteries are cheap; as low as a few dollars each in large quantities. System Integrators in St. Louis works with GRiD to produce a wand that attaches to the GRiD pad; touching the memory reads out the information into the hand-held computer. Once again, data collection is speeded up, an extra step is eliminated, and costs and errors are reduced.

Voice

Even though dictating to a computer is still out of reach, there are a number of uses of voice. Properly trained systems can understand a particular voice if the words are spoken distinctly with a break between. And, even more easily, machines can use voice synthesizer boards to read your work back to you.

But there are problems with using voice to communicate with computers. "The more complex a task is, the more ambiguous it is, and the more talking you have to do," says Will Fastie, PC software analyst for Alex. Brown & Sons, a Baltimore stock brokerage. In some instances, he says, using a keyboard might be faster—and more private.

As it turns out, Verbex Voice Systems,



This computer, the GRiD PalmPad, allows employees who do not work in traditional office environments to gather information and enter it with a pen.

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of Edison, N.J., has solved both those problems, and at a price that small businesses can live with. But it does not replace other entry devices, says Al Stromberg, president and CEO of Verbex. Verbex systems are a combination of add-in board and software. They allow continuous speech commands in a natural order, as well as data entry. Systems have to be trained to a particular voice and application.

The training allows the system to pick soft speech out of background noise. The price is being reduced to \$2,000 to \$7,000 or lower, and training requires up to two hours depending on the complexity of the application.

So you can talk to your computer—and these are not all the ways. For the really far-out future, there is "virtual reality." In VR, as it has been abbreviated, specially designed goggles and gloves have chips embedded in them and radio transmitters that talk directly to the computer, giving the wearer the impression of being in a particular setting. The user's hand and eye movements are detected, and the



By pointing at icons with a stylus, the user of a GRiD PalmPad makes menu choices.

scene is moved to create the perspective being looked at.

For example, a real-estate agent could walk clients through a VR house without ever leaving the office. Architects could design full-sized VR models.

As with HAL, imagination precedes reality—and not always by much. **■**

Helping The Disabled Use Computers

Pen computing and pointing devices with graphical user interfaces that put little icons on the screen call attention to the fact that computer technology seems to assume that the user is agile, sighted, and able-bodied.

If you can't see, you cannot point at a choice on the screen. If you can't hear, having a computer that can talk to you is pointless. If you have motor-control problems, using a keyboard can be next to impossible. And yet computing power can make offices much more accessible to the disabled.

Employers should be aware that there are alternative devices and software solutions becoming available—and many more will certainly follow.

As long as the solutions are rare, they will be relatively expensive. But as they become more widespread, costs will come down. Demand appears certain to increase now that provisions of the Americans with Disabilities Act have taken effect. The publishers of operating systems, including Apple, Microsoft, and IBM, are expected to build into their systems the capabilities that will let the disabled use computers more easily.

Meanwhile, some good solutions for specific problems are appearing. Here are just a few of them:

■ Arkenstone, Inc., a nonprofit agency in Sunnyvale, Calif. (1-800-444-4443), has combined a Panasonic scanner, a Calera character-recognition board, a voice synthesizer, and the company's own software to tie these devices together so that almost any document can be read to a person who has impaired vision or difficulty reading printed material.

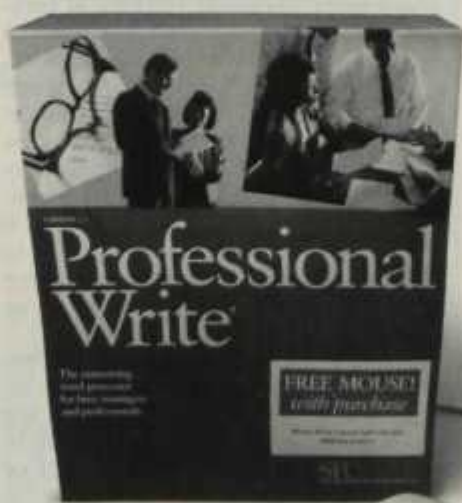
■ Dragon Systems, Inc., in Newton, Mass. (617-965-5200), has been in the speech-recognition market for many years. It has an ambitious system, DragonDictate, that allows text entry as well as commands. Words need to be separated in speech, but dictation speed can get as high as 40 words a minute. Obviously the program is useful for the person with impaired motor abilities or serious vision difficulties.

■ IBM has a simple device for people with conditions like palsy that make it difficult to keep hands centered on the keyboard: a plastic overlay that snaps onto the keyboard, creating depressions into which the fingers can fit. (IBM Special Needs and Referral Center; 1-800-426-2133.)

■ ROLM Co., of Norwalk, Conn. (203-849-6000), has extended TDD (telecommunication devices for the deaf) technology for the hearing- and speech-impaired. If a company installs PhoneMail with TDD support, the system can translate TDD sounds directly, without requiring an operator to switch the phone set to an acoustic coupler.

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REGULATION

How Do Federal Rules Affect You?

An invitation to tell us what regulations you find most troublesome for your company.

By David Warner

Complying with federal regulations costs small businesses billions of dollars and millions of worker hours each year.

"Government regulation is a delicate balancing act between real costs and expected benefits," says Lawrence A. Hunter, vice president and chief economist of the U.S. Chamber of Commerce. "Unfortunately, the scale today has become permanently tipped against business activity and economic growth."

President Bush has taken some preliminary steps to deal with the problem. In late January, he ordered a 90-day moratorium on issuance of new regulations and requested a review of existing federal controls.

That action, says Hunter, marked an important first step toward re-establishing regulatory rationality. He adds, however, that much more needs to be done to curb regulatory excesses, and so the Chamber is launching a program to help the Bush administration achieve that goal.

The business federation has established a clearinghouse to collect evidence on the adverse effects of business regulations and is inviting companies to detail their experiences in coping with the regulatory burden. These accounts will provide critical documentation for the Chamber's case for elimination or modification of certain regulations. (See the box in the lower right-hand corner of this page

for details on how you can submit accounts of your experiences with excessive government controls.)

At the request of the Bush administration, the Chamber recently submitted a list to the White House Council on Competitiveness of some of the regulations identified thus far as most onerous and costly to business. Environment and health and safety rules topped the list, which also included regulations dealing with food labeling and government contracting.

Federal regulation exploded during the 1960s and '70s—more than 100 laws implementing or expanding federal controls were enacted in the latter decade alone.

Some progress toward deregulation was made during the Reagan presidency, but much of that gain has since been lost.

Thomas D. Hopkins, an economics professor at the Rochester Institute of Technology, in Rochester, N.Y., who is an authority on government regulation, notes that federal regulations' annual cost to the economy fell from \$433 billion in 1977 to \$369 billion in 1986, but the figure was back up to just over \$400 billion by 1991. That's more than \$4,200 per household.

Regulatory costs also are reflected in the increases in the funding and staffing of the 52 federal regulatory agencies, as the charts on this page show.

The staff of the Environmental Protection Agency, for example, has increased by 23 percent and its budget has grown 31 percent since 1988, according to the Center for the Study of American Business, at Washington University, in St. Louis. Overall, environmental regulations are estimated now to account for 38 percent of the total federal regulatory budget of \$13 billion.

For some time, the Chamber has voiced concerns about the effects of regulations on business and the economy.

In citing what they regard as catalysts for today's economic recession, many economists point not only to the 1990 tax increase but also to several new, costly regulations, including those drawn up to implement the 1990 Clean Air Act Amendments and the Americans with Disabilities Act. It is estimated that the disabilities law will cost taxpayers as much as \$20 billion annually, while the clean-air law will add at least \$25.6 billion

Administrative Costs Of Federal Regulatory Activities

(In Billions)

1970	\$ 1.4
1975	3.5
1980	6.3
1985	7.9
1990	11.2
1991*	12.3
1992*	13.0



*Estimate

Source: Center for the Study of American Business, Washington University, St. Louis.

to the cost of doing business.

A Virginia wholesale bakery, for example, says that the Clean Air Act requirements that filters be installed to remove ethanol produced by yeast from oven emissions will add \$500,000 to the construction costs of a \$12 million facility that the company is building. **NE**

How To Submit Your Account

Businesses can contribute to the regulatory-reform campaign by reporting the adverse effects that federal regulations have had on them.

Documentation should include compliance costs, paperwork burdens, impact on operations and customer relations, and other problems.

In addition, the specific regulation involved should be cited, and the company's telephone number should be included.

Submissions should be mailed to: Regulations, *Nation's Business*, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.

Examples of the worst regulatory overkill will be published in *Nation's Business*.

Total Employees Of Federal Regulatory Agencies

1970	71,233
1975	103,321
1980	121,870
1985	101,963
1990	114,591
1991*	120,004
1992*	122,408



*Estimate

Source: Center for the Study of American Business, Washington University, St. Louis.

Family Business

A strategy for bringing children on board; the real purpose of profits; dealing with disgruntled siblings.

OBSERVATIONS

Marketing Your Business To The Family

By Sharon Nelton

As many disappointed family-business owners learn too late, it's dangerous to assume that a son or daughter will follow you into the business. Just because you, without question, followed your parents into the family firm doesn't mean your children will do the same. Today's young people have more options than ever before—more to lure them away from the family enterprise.

That's why *Keeping It in the Family*

**It's dangerous
to assume that
children will fol-
low you into
your business.**

—Sharon Nelton

Successful Succession of the Family Business (Wiley, \$29.95), a book by James W. Lea, caught my eye. One of its most interesting chapters is called "Marketing the Business to the Family."

Lea, a management consultant based in Chapel Hill, N.C., maintains that marketing a business to family members as both a career and a family enterprise "just might be the biggest and most important marketing job of any businessperson's life." Why? Because often, he says, it is "the crucial step" in successfully transferring ownership and leadership of a business to the next generation.

Lea recommends developing a five-point family-business marketing strategy that would have you:

1. Develop a favorable image. Expose family members to the business. Introduce them to the people who work there and who buy its products and services. Express your pride in its products and the way it supports employees' families.

2. Define the business's appeal. And put it in terms that make sense to the listener. A young adult might respond favorably if you spell out the opportunities for rapid advancement that a family member in your business will have.

3. Know the competition. What career alternatives, family obligations, or personal interests are competing for the commitment of your children? Are there circumstances that present tough, negative competition—such as rivalry between siblings or cousins or spouses of prospective successors?

4. Price your "product" competitively. The "price" successors pay to join and operate your business may include giving up career options that are financially and personally attractive. It may mean loss of privacy, or the tension that occurs between parent and child when their management styles conflict. Lea says a business may make compromises—such as making it possible for the successor to spend more time with his or her family or hiring an interim senior manager to buffer conflicts between parent and child. But the company's "cost" and the successor's "price" must be affordable to both.

5. Select good outlets. The strategy has to provide satisfying "outlets" for children's ideas, interests, enthusiasm, and concerns. This means you must be especially thoughtful about entry-level jobs for proposed successors. Lea says such jobs should be consistent with children's experience and ability but also provide enough substance to make the company attractive.

Marketing doesn't end once you have successfully brought your children aboard. You have to continue selling them—and their families—on the challenges and rewards of your company.

Lea promises there will be many pay-offs from a sound, successfully applied marketing strategy. First on his list? "A better-informed family and better-prepared successors."

PLANNING

Where Does All The Money Go?

By John L. Ward and Craig E. Aronoff

Spouses and family members who don't work in the family business often wonder, "Where does all the money go?"

They ask: "Why do we always go back to the bank for more money? Can't we make enough money to pay off the loans?" And: "We've had this business 17 years. Why do we still act as if money is tight?"

To understand the family's business and its effect on the family, all family members need to understand some basic business finance. They also have to know a little bit about what makes entrepreneurs tick.

The simple answer to the question of scarce money is that it's very, very difficult to accumulate cash in a business. For most family-owned companies, the faster you make money, the faster it disappears. Here's why.

First, no company has a "right" to profits. They are only earned to the extent that the business is better than the competition, highly efficient, and spared from competitors' mistakes or foolish actions. That's a lot to ask.

Customers will pay somewhat more if they believe they are getting a better value than they could get anywhere else. That's the first key principle of business strategy—figure out some way to give the customer more value than anyone else does; then have the courage to ask a little higher price.

Competitors with no special value for customers will beat each other up until someone, in the effort to keep the doors open, cuts the price so low that no one makes any profit. Never in the memory of the current generation of business managers has price cutting to the detriment of profits been so prevalent as it is now.

Of course, even if you are offering good value and you deserve and are earning a good profit, the profit can't be wasted away. Too often, the past competitive battles have been so wearing on the business leaders that they lose their resolve to fight inefficiency—or they get too generous with employees who have hung in so long, so loyally. So the second



PHOTO: AMANDA BALDWIN

key to business success is to have benchmarks for spending. Know that you are not spending more than equivalent competition on delivery, selling commissions, fringe benefits, and the like.

Occasionally, even good value and good costs are not enough. In most industries, some naive competitor will cut prices so low that the firm thinks no one will follow. But, as the laws of economics do their inevitable work, other companies do follow, and not even the best earn profits. An excellent privately owned company, however, at least has the advantage of being able to take the long view and weather the storm. Unpressured by stockholders, it may be able to take losses for a longer period of time than its publicly held rivals can.

Now, let's assume that you are making a good profit. Why doesn't the family get to spend it all? Why isn't the bottom line on the income statement at least being used to pay off lots of debt?

The reason is that the business needs the profits to fund its growth. For every \$100 of sales growth, most companies need \$10 to \$20 to finance receivables—money owed by the new customers. And, many companies will also need \$5 to \$15 in inventory—materials on the shelves to meet the new customers' deliveries.

So we need \$15 to \$35 to finance the \$100 growth, yet the profit (after Uncle Sam takes 25 percent to 35 percent for taxes) on that \$100 is likely to be \$2 to \$10, depending on the industry. The rest of the money then must come from the profits on existing sales.

Financing sales growth is just one use of profits. Some of the profits must also go to replace worn out or obsolete equipment, trucks, and leaky roofs. An average company spends 5 percent to 10 percent of sales revenue (usually one to two times depreciation) to replace or upgrade these fixed assets. Other growth companies might choose to add some extra monies to research, or to advertising, or to hiring and training—all for the future.

In sum, for a growth company—even a nicely profitable one—most of the profits go to finance current or future growth.

So why grow? There are several reasons. First, if companies aren't growing, they are often ceding opportunities to the competition. In the long run, they are weakening themselves. Second, business

growth provides opportunities for the personal growth of the employees. A stagnant company has a hard time attracting and retaining talented people.

But there is another reason, too. Often, entrepreneurs like growth for the personal challenge and reinforcement. Real business builders don't want to stop. Once you get in the habit of "creating value," you are hooked. And that's a good thing.

Owners, employees, and customers who depend on the business gain security as the company gets stronger. Society is better off because of the healthy competition. The family is probably better off because it learns the ethics of work, responsible leadership, and "adding value."

So the use and consumption of money in a business is a vicious circle. The more able you are to create profits, the more you need to fund your success.

Of course you can stop. You can "cash in" by liquidation, gradual disinvestment, or a sale. But then you are out of business, out of the game, out of the opportunities that being in business brings.

That's why the most important lesson of business finance is that money really isn't the goal; it's the lubricant or the fuel of a successful company.

The more a family focuses on profits as something to consume, the less long those profits and that business will last. The more the family sees profit as a scorecard of "adding value" and a means to create more value, the longer the business will last and the more the family will learn about how business, and life, seem to work.



John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Questions To Ask

The four most important finance questions that family members who are shareholders in the family firm should ask are:

1. What is our return on investment—the best index of how well we're creating value?
2. How much money is the business spending to create growth and future profits?
3. What percentage of our profits is needed to fund new growth—for working capital and for new fixed assets?
4. What percentage of the profits that we keep in the business will Uncle Sam eventually take in death taxes?

Mark Your Calendar

May 8, Dallas

"Succession Planning: Preserving Wealth in the Family Business" is a conference sponsored by Baylor University's Institute for Family Business. Contact Nancy Bowman-Upton or Fadene Shirley at (817) 755-2265.

May 19, Smithfield, R. I.

"Choices, Not Chances: Strategies for Managing Leadership Transition in Family Business" is the theme of the first annual Rhode Island Family Business Conference, co-sponsored by the Bryant College Institute for Family Enterprise and the Greater Providence Chamber of Commerce. Call Christine Smith at (401) 232-6477.

May 27, Los Angeles

"Creating Positions for Children: Controlling the Conflicts of Managing Family Members" is a breakfast meeting at the University of California at Los Angeles. Contact Elaine Hagan at (310) 825-2985.

June 10-12, Cleveland

"Managing Succession Without Conflict," a seminar led by family-business consultant Léon A. Danco. To be repeated Nov. 11-13. Call or write the Center for Family Business, 5862 Mayfield Road., P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

July 16-19, Snowmass Village, Colo.

The Aspen Family Business Conference is built around the 10 characteristics shared by successful families in business. Contact the Bork Institute for Family Business, 117 Aspen Airport Business Center, Suite 201, Aspen, Colo. 81611; (303) 925-8555.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.



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CASE STUDY

Turmoil Revisited

Tired of the family turmoil in his father's business, Hank Schmidt left 25 years ago to start Schmidt Manufacturing Co. Intense rivalry between Hank and his brothers had nearly sunk the father's company and had created much bitterness in the family.

Hank didn't want the same discord in his own family. But as Hank nears retirement, he faces a new round of conflicts.

Two of Hank and Louise Schmidt's six children are active in the business. George joined his father 10 years ago and is preparing to become president. After working elsewhere, Barbara returned last year to become director of sales.

On the advice of their tax consultant, Hank and Louise have kept the voting shares of the company but have gifted the



ILLUSTRATION: DAVID CHEN

nonvoting shares equally to all the children. They were told the gifting program would reduce estate taxes.

Six years ago, George and his parents pooled their savings to create a leasing partnership to buy equipment and lease it back to the manufacturing company. This not only helps expand the core business, but George, Hank, and Louise benefit

personally in interest that is paid to them rather than to a bank. Now Barbara wants to be a partner in Schmidt Leasing.

The problem intensified two weeks ago when Hank sent a letter to the children, inviting them to a family meeting. Included on the agenda was a discussion of Barbara's request to join the leasing partnership. Within days, the children not active in the business began complaining that the leasing partnership was unfair. "Why shouldn't we all be partners?" they asked. "Aren't we all equal shareholders in the family business?"

As the tension mounts, Hank is reminded of the family turmoil he chose to leave behind long ago. Once again, Hank and Louise are struggling with a family-related business crisis. How can they protect the best interests of both their business and their children? What should they do about the leasing partnership?



PHOTO: APRIL SERE

Adopt A Different Strategy

Jayne M. Sassano, an attorney and family-business consultant with The Cohn Financial Group, Inc., in Phoenix, Ariz.:

The Schmidts' program of gifting shares of the business to the children was meant to reduce Hank's and Louise's death taxes. However, this strategy blurs the lines between gifts and performance-based rewards. The concept that future financial security is a matter of birthright is being reinforced. Furthermore, the likelihood that the Schmidt Manufacturing Co. will soon be controlled by four individuals who have little interest in the business becomes a foregone conclusion.

The rising conflict and turmoil that Hank observes are symptoms of a legal and financial strategy that goes against his family values and business horse sense. If the equipment-leasing partnership were converted to a limited partnership, active members along with Hank and Louise could be the general partners empowered to make financial decisions, such as rental negotiations. Hank's retirement income could be bolstered by general-partner management fees.

Instead of sharing equally in the manufacturing enterprise, it makes more sense for the inactive children to be limited partners in the leasing partnership. Limited partners are passive investors and have no control over the activities of the partnership, but they can receive income distributions and perhaps tax-sheltered benefits.

The four inactives should give assent to a shareholder agreement permitting the corporation or George and Barbara to buy out their shares over time. As these shares are redeemed or purchased, the cash is infused into the leasing partnership and either used to purchase additional equipment needed by the manufacturing business or distributed pro rata to partners. Inactive family members would receive passive income and share in the future growth and success of the family corporation without directly controlling it.



PHOTO: GERRIE BUCHANAN

Address Long-Range Issues

Dean Fowler, a family-business consultant and founder of The Forum for Family Business, based in Elm Grove, Wis.:

The Schmidts need to disentangle ownership, management, and personal issues. On the surface, the leasing partnership undermines the family's desire for fairness for all children. But Hank and Louise face a more serious and longer-term issue concerning the distribution of their voting stock. The conflict surrounding the leasing partnership is merely a forerunner of the problems that will emerge when the voting shares are distributed after the parents retire or die.

With the stock being shared equally by all the children, George faces a problem common to family-business successors: the tension between stewardship and entrepreneurship. As a steward, George has the obligation of managing the investment of all the stockholders. He is also forced into the "parental" function of providing equality and fairness to all his siblings. His tendency, in this stewardship mode, will be to avoid risk with the investment.

But as company president, George will accept the responsibility of expanding the business. As an entrepreneur, he is likely to take more risks.

Rather than focus attention on the leasing partnership, the parents should use the family meeting to address the long-range issues of ownership and voting control of the business. Before retirement, Hank and Louise should consider dissolving the leasing partnership and writing a buy-sell agreement that consolidates ownership and voting control in the hands of the active family members, with an equitable method for the nonactive siblings to cash out of the business.

This way, Hank and Louise realize the goal of fairness for all the children. They also assure stability of the business by putting it in the control of the two children most committed to it and most able to run it. And George will be relieved of his "parental" role.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Johnstown, N.Y.

Rethinking Public Education in America

When it comes to explaining the lack of improvement in academic achievement among American children, most people are all too eager to blame the nation's school system. Yet few can agree how best to reshape U.S. elementary and secondary schools to meet the educational challenges of the 1990s.

As a company with a major presence in this country and interest in its well-being, we share the concern about the state of U.S. education.

That's why Hitachi recently joined forces with the California Chamber of Commerce and other civic-minded organizations to sponsor California Public Affairs Forums on educational reform. Aiming to develop a consensus on school reform, we invited several hundred educators, business executives, government officials, parents, and journalists from the San Francisco area to hear experts discuss their ideas on educational reform. Two days later in Los Angeles a similar audience heard another

prestigious panel address the same topic.

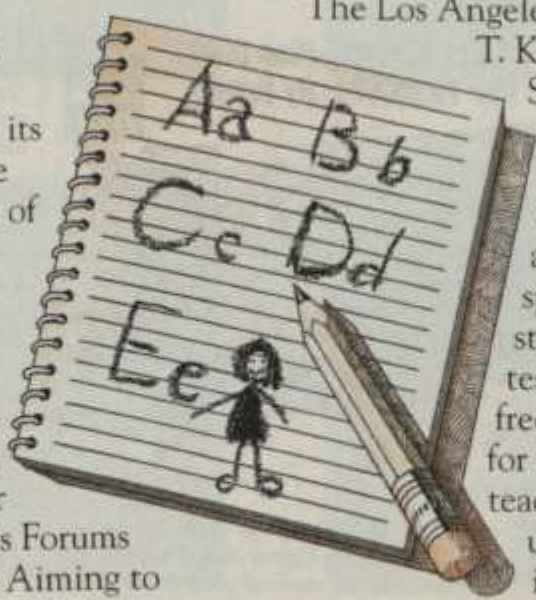
Each forum featured a leading proponent of educational reform as its keynote speaker. In San Francisco, it was William J. Bennett, formerly U.S. Secretary of Education and now a senior fellow at the Hudson Institute. The Los Angeles forum featured David T. Kearns, Deputy U.S.

Secretary of Education.

Among the proposed reforms: year-around school attendance; more specialized schools; standardized achievement tests and curricula; and freedom of school choice for both parents and teachers. The speakers also urged greater business involvement in public education.

It's our hope that these ideas will contribute to a growing consensus on educational reform in the U.S.

To obtain copies of the speakers' presentations and other information, write: Hitachi, P.O. Box 35146, Los Angeles, CA 90035.



HITACHI

Benefits Update

Health insurance's price tag for employers; ways to cut wasteful health spending; a look at referral-for-profit.

By Roger Thompson

HEALTH INSURANCE

Employers' Costs For Employees Soar

U.S. employers spent an average of \$3,573 per worker last year to purchase health insurance, up 13 percent from 1990, according to a new survey.

Because the recession put a crimp in corporate earnings, total health costs in 1991 rose to 45 percent of after-tax profits. In 1989, the last year before the recession, health costs equaled 26 percent of corporate profits.

These are among the findings of the annual health-care survey conducted by A. Foster Higgins & Co., an employee-benefits consulting firm based in New York City.

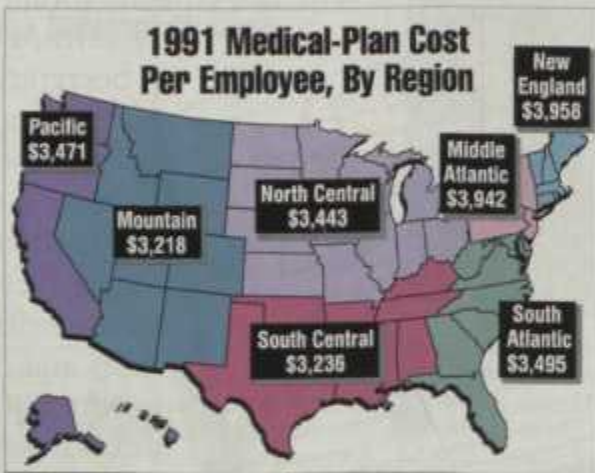
The survey noted that health expenditures have doubled since 1985, when the average health plan cost employers \$1,724 per employee. John Erb, a Foster Higgins principal and the study's author, predicts that employers' average costs for health plans this year will exceed \$4,000 per employee. In fact, 30 percent of the 2,409 employers surveyed in 1991 said their average costs already have surpassed \$4,000.

The survey found striking regional differences. For example, employers in the South Atlantic and New England regions reported the highest average cost per employee (see the accompanying

chart) and the largest percentage increases in 1991—19.6 percent and 18.4 percent respectively.

Among all the industry groups surveyed, the highest rate of increase was in health services, 21.1 percent.

Because of rising costs, many employers reported shifting a larger share of



Source: A. Foster Higgins & Co., Inc.

expenses to employees through higher deductibles and higher out-of-pocket requirements. In medical-plan deductibles for an individual in 1991, the median figure (where half are higher and half are lower) was \$200, up from \$150 the year before. The median out-of-pocket requirement for an individual was \$1,050; for a family policy, \$2,100. Both amounts were up slightly from the previous year.

HEALTH SPENDING

A Plan To Cut Billions In Waste

Eliminating waste and inefficiency would reduce the nation's health-care expenditures by one-third without sacrificing quality of care, says Arnold S. Relman, a professor of medicine at Harvard Medical School.

Relman, retired editor of *The New England Journal of Medicine*, argues that the savings generated by a more "rational" health-care delivery system would make it possible to provide care for all 36 million uninsured Americans.

Writing in *Health Management Quarterly*, Relman says that at least 15 percent, and sometimes 30 percent, of all medical tests and procedures are not medically necessary, and he adds that an equal proportion of tests are only "marginally justifiable."

Inefficiency and high overhead also waste health-care dollars, according to Relman. He maintains that a more efficient medical system would include:

- Wider use of prepaid, comprehensive medical plans, as opposed to fee-for-service plans.

- Greater reliance on generalists, rather than specialists, to deliver primary health care.

- A ban on allowing doctors to own medical facilities to which they refer patients for diagnostic tests.

- Reform of the malpractice-insurance system to limit damage awards, reducing the need for defensive medicine.

TAX POLICY

Laws Discriminate Against The Uninsured

Unfair federal tax policies prevent millions of uninsured Americans from purchasing health coverage, according to a report issued by Health Care Solutions for America, a nonpartisan research group based in Washington, D.C.

"Current tax policy allows corporations to deduct the entire cost of health insurance for their employees, while individuals purchasing their own insurance are not allowed any deductions at all," says Aaron Trippler, executive director of the

organization. As a result, many employees of small firms, most part-time workers, the unemployed, and others not eligible for employer-provided insurance must pay the entire cost of health coverage with after-tax dollars. Giving individuals the same health-care tax deduction as corporations "would enable 9.8 million men, women, and children—nearly one-third of those uninsured—to obtain health-care coverage," says the study.

Increasing the health-insurance deduc-

tion for individuals to 100 percent would cost the federal government about \$8 billion a year in reduced revenues, the study estimates.

The study also advocates a 100 percent deduction for the self-employed, who now can deduct only 25 percent of the cost of health insurance. This increase would cut revenues by \$7 billion, according to the Senate Finance Committee.

Says John Weiss, president of Health Care Solutions: "Providing tax equity would insure more people, at less cost, than any other health-insurance reform proposal being discussed."

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CENSUS SURVEY

Employer Health Plans Decline

Employment-based health insurance provided coverage for 140 million Americans in 1990, a decline of more than 2 million from the previous year.

Over the same period, the number of uninsured rose to 36 million from 34.7 million, and the number of low-income individuals covered by Medicaid swelled to 17.2 million from 14.6 million (see chart).

These are among the findings derived from the Census Bureau's most recent survey of American health-insurance coverage, conducted in March 1991. The Employee Benefit Research Institute, a nonpartisan research organization based in Washington, D.C., analyzed the survey data and issued a special report earlier this year.

The institute attributed the 1990 decline in employer-based health insurance to escalating costs and to rising unemployment brought on by the recession.

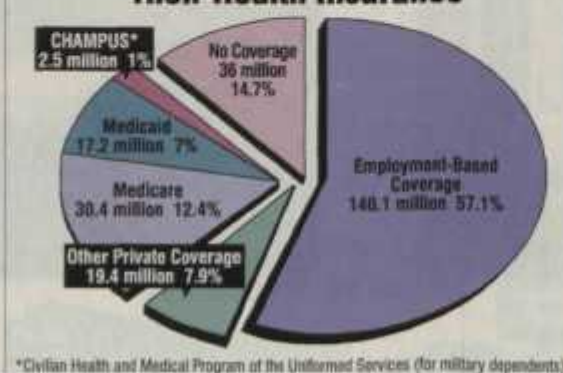
As the number of uninsured Americans rises, so does political interest in making health care accessible and affordable for this group.

Among the 35.7 million nonelderly un-

insured in 1990, 55.7 percent were working adults. The remainder were nonworking adults (16.8 percent) and children (27.5 percent).

Nearly half of the uninsured workers were either self-employed or working for companies with fewer than 25 employees. Twenty-nine percent of all workers in firms with fewer than 25 employees were

Where Americans Get Their Health Insurance



*Civilian Health and Medical Program of the Uniformed Services (for military dependents)

Source: Employee Benefit Research Institute

insured, compared with only 9 percent of workers in firms with more than 1,000 employees.

In 1990, 55 percent of the uninsured were in families with annual incomes of less than \$20,000.

MALPRACTICE REFORM

Maine Targets Defensive Medicine

Maine has launched an experimental program designed to restrain medical costs while giving doctors in four specialty areas a shield against malpractice claims.

Fear of malpractice lawsuits causes many doctors to practice what is called defensive medicine—conducting tests and other procedures primarily to avoid potential legal liability. The American Medical Association estimates that defensive medicine costs about \$15 billion annually nationwide.

Under the Maine Medical Liability Demonstration Project, which went into effect Jan. 1, doctors agree to limit their use of defensive medicine. In exchange, those who can show that they followed guidelines developed for their specialty areas can cite the guidelines as a primary defense against malpractice claims.

The demonstration project extends through 1996 and includes doctors in obstetrics and gynecology, emergency medicine, anesthesia, and radiology. All four of these specialty areas are frequent targets of malpractice lawsuits.

The Maine program, said to be the first of its kind in the country, is part of a 1990 tort-reform law. Several bills that would link medical-practice guidelines to limits on doctor liability also have been introduced in Congress.

MEDICAL PRACTICES

The High Cost Of Referral-For-Profit

California doctors who send patients to facilities in which they have an ownership interest run up more than \$350 million annually in unnecessary workers' compensation costs, concludes a new study.

"Self-referral—called referral-for-profit—is one element in an economic-incentive system that contributes significantly to this nation's sky-high health-care costs," says Gregory Johnson, co-author of the study and a principal with William M. Mercer Inc., a nationwide consulting firm.

In his study, Johnson examined more than 6,500 workers' comp claims filed in 1990 and 1991 with Industrial Indemnity, a major West Coast insurer. The inquiry looked at three types of claims—physical therapy, diagnostic imaging, and psychiatric services. Among its findings:

■ If a worker received treatment from a doctor with a financial interest in physical-therapy services, the worker was referred for physical therapy 66 percent of the time. Patients treated by doctors with no financial interest in physical-therapy services were referred to physi-

cal therapists only 32 percent of the time.

Although some of this additional treatment was deemed clinically necessary, the study concluded that unnecessary referrals generated over \$233 million a year in excessive workers' comp expenses.

■ In cases involving patient referral for diagnostic imaging, such as magnetic resonance imaging (MRI) or computerized axial tomography (CT), doctors making the referrals had an ownership interest in the imaging centers 78 percent of the time. An independent utilization review concluded that 32 percent of the CT and MRI referrals had no clinical value to the injured workers, adding \$74 million in unnecessary costs.

■ In cases involving employment-stress claims, doctors in 70 percent of the cases referred patients to at least one diagnostic facility in which they had a financial stake. Services provided at facilities in which the referring doctor had an ownership interest were found to be 28 percent more expensive than those facilities without doctor financial involvement—adding \$49 million in costs.

Although the study examined only three areas of self-referral, Johnson maintains that the total added cost for self-referral in all medical areas "could be as much as several billion dollars a year in California alone, and far more on a nationwide basis."

A bill to ban physician self-referral passed the California Assembly in March and was sent to the state Senate for consideration.

The Florida Legislature in March passed a bill that will phase out doctor self-referral to imaging centers, clinical labs, and physical-therapy facilities by 1995.

Because of the growing controversy over physician referral-for-profit, the American Medical Association is now urging doctors to refrain voluntarily from self-referral. The U.S. Department of Health and Human Services already has issued regulations limiting physician ownership in facilities to which they refer Medicare patients.

Defenders of physician self-referral maintain that a complete ban would significantly reduce the availability of diagnostic services, especially in rural areas and inner cities.

WOMEN IN BUSINESS

Showing Their Staying Power

By Sharon Nelton

Melba J. Duncan turned her years of experience as an executive assistant into a business in 1985 when she launched The Duncan Group. The New York-based firm, which earned \$150,000 on revenues of \$500,000 last year and has six employees, recruits executive secretaries, administrative assistants, and office administrators and places them with top executives in corporations across the country.

When she worked for someone else, Duncan says, "my livelihood was dependent on how successful that individual was." But when a woman goes into business for herself, she says, "you're in control of your own destiny."

The year before Duncan opened her firm, Carolyn Dickson started Voice-Pro Inc., a Cleveland communications consulting company, in her home. She later moved into commercial office space. She reported 1991 revenues of \$400,000 and has three persons working for her.

Like Dickson, Ellen L. Barrosse of Newark, Del., started a business at home—Writers, Inc., a company that provides technical writing and graphics services to corporate clients. Begun in 1986, Writers, Inc., outgrew its home office by 1988. Revenues last year were \$1.8 million, and Barrosse now employs 35 people.

It's no accident that these three women started their companies when they did. Duncan, Dickson, and Barrosse are part of the great wave of women who went into business for themselves in the 1980s. From 1982 to 1987, according to the U.S. Census Bureau, the number of women-owned businesses rose 57 percent, to 4.1 million from 2.6 million.

A new report, from the National Foundation for Women Business Owners, says that by 1990, women owned 5.4 million U.S. businesses and provided employment for close to 11 million people.



PHOTO: EMILY BOWEN

New York entrepreneur Melba J. Duncan says her business, which recruits executive assistants, has grown "slowly and methodically."

The 1980s generated more women business owners than any other decade in history. But the 1990s are the decade in which women must prove their staying power. And so far, so good. Despite a major recession, women-owned companies are surviving and, in many cases, prospering.

"Last year was a really tough year, and I don't want to go through another year like that again real soon," says Barrosse. Nevertheless, a tough year for her meant growth for Writers, Inc., of 20 percent, compared with 60 percent the year before. Sales have doubled nearly every year she has been in business.

Tested by the recession, America's 5.4 million women entrepreneurs press for new gains.

Voice-Pro's Carolyn Dickson says business has been down during the recession but "looks to be rebounding." And while Melba Duncan says her company has grown "slowly and methodically," she expects 50 percent growth this year to revenues of \$750,000.

"Anecdotally, I hear that even though it's tough, women [business owners] are doing just fine," says Lindsey L. Johnson, head of the U.S. Small Business Administration's Office of Women's Business Ownership. Women entrepreneurs, she says, "started undercapitalized, they started on a shoestring, and so weathering a recession just means tightening the belt one more notch."

The surge in growth of women entrepreneurs in the past decade led to the enactment of the Women's Business Ownership Act of 1988. The legislation:

- Set aside a total of \$10 million for three years for grants for the creation of demonstration projects to provide counseling and training for women business owners and would-be owners; the program is administered by the SBA's Office of Women's Business Ownership.

- Established a National Women's Business Council to submit annual policy recommendations to the White House and Congress for supporting women-owned businesses;

- Called for more-complete data collection on women's business ownership by federal agencies; and

- Created an incentive to encourage banks to make more small, SBA-guaranteed loans. The incentive applies to loans of up to \$50,000 and permits lenders to keep half of the 2 percent fee they normally pay to SBA to guarantee a loan. It also lifts the cap on interest rates on these loans; normally, interest on SBA-

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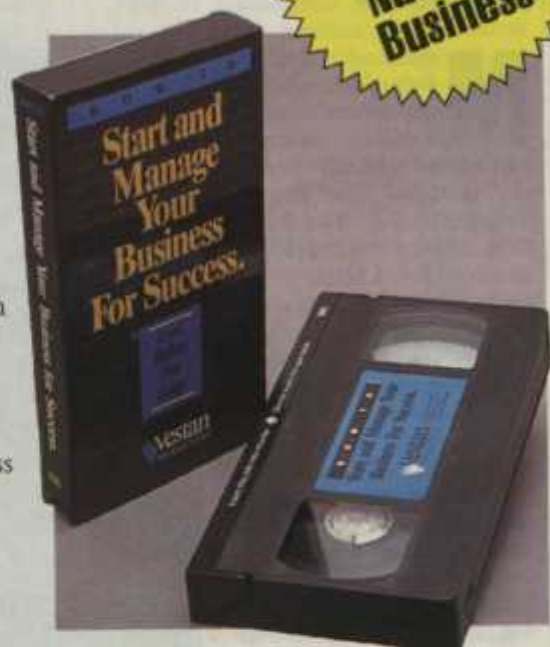
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WOMEN IN BUSINESS

guaranteed loans is limited to 2 points over the prime rate.

Although this provision did not specify the sex of loan recipients, the rationale behind it was that women would benefit because they tend to seek smaller loans for their businesses.

Has the Women's Business Ownership Act made an impact?

"As far as we're concerned, absolutely," says Hedy M. Ratner, co-founder and co-director of the Women's Business Development Center in Chicago. One of the largest and most successful women's business assistance centers in the U.S., WBDC has helped create more than 360 women-owned businesses and has helped more than 1,000 others expand since its founding six years ago. WBDC has received \$850,000 since 1989 under the Women's Business Ownership Act and has raised an additional \$850,000 in private matching funds to replicate its programs in Indianapolis, three northern Illinois cities, and six Ohio cities. The programs are in operation in all but one city, which is still in the planning stage.

Other successful programs, such as the American Woman's Economic Development Corp., in New York City, have also received funding under the act to establish demonstration projects in other cities. A report assessing the demonstration program is due out soon.

Women receive about 13 percent of the SBA's total guaranteed loans, a figure that has held steady for several years. However, Johnson says there has been "a fairly brisk upturn" in the \$50,000-and-under SBA-guaranteed loans granted to



PHOTO: BRUCE ZANE

Voice-Pro founder Carolyn Dickinson.

women since the small-loan incentive went into effect in 1990. In 1989, before the incentive, women received 594 loans totaling \$20.47 million. In 1990, they received 709 loans totaling \$23.88 million; in 1991, there were 699 such loans totaling \$23.73 million.

Yet lack of access to capital for women business owners continues to be a major finding of studies on women's entrepreneurship and a complaint among women entrepreneurs themselves.

In its 1991 report to the president and Congress, the National Women's Business Council states that "access to capital has been and continues to be the biggest problem women business owners must face. Whether it is due to actual discrimination against women, the hesitancy of banks to make small loans, or simply the

lack of information on available resources and how to tap them, the result is the same. Women's businesses start with less funding, are frequently self-funded, and tend to remain underfinanced even after they have been proven viable."

In her book *Our Wildest Dreams: Women Making Money, Having Fun, Doing Good* (HarperBusiness, \$20), Joline Godfrey notes that one woman raised \$75,000 in start-up capital by using 15 credit cards that each had a limit of \$5,000. "Odd how banks are willing to give women credit cards now but still find it a leap to give them a business loan," observes Godfrey, the founder and former owner of a game-design company called Odyssey, Inc.

Melba Duncan was fortunate. While she says it took \$75,000 to start The Duncan Group, she had two investors—Peter G. Peterson, the former chairman of Lehman Brothers Kuhn Loeb Inc., who had been her boss for many years, and Russell Reynolds Jr., a well-known New York executive recruiter.

But Ellen Barrosse of Writers, Inc., describes the difficulty she had getting a bank loan when she needed to finance the rapid growth she was experiencing by the end of her first year in business. "I think that when [the bank] looked at us, they saw a woman working out of her home with a bunch of other women working for her," she says. "Even though our receivables were top-notch, they just felt better having my husband co-sign that loan."

Obtaining capital for growth may actually be a bigger problem than obtaining start-up capital. The NFWBO report says

Opportunities In Franchising

By Meg Whittlemore

Women continue to own only a small fraction of the franchise companies and outlets in the U.S., according to Women in Franchising, Inc. (WIF), an association and training firm based in Chicago.

Although women own about 30 percent of the nation's small businesses, a 1990 WIF survey shows they own only 11.1 percent of the U.S. franchise units, up a mere 0.2 of a percentage point from 1987.

"We've got a lot of work to do," says Susan Kezios, president of WIF. The 5-year-old, privately held firm is devoted to introducing women to franchising, primarily through national seminars on the steps involved in franchise ownership.

Women such as Julie Brice, president and CEO of the 400-unit I Can't Believe It's Yogurt franchise, are few and far

between. Kezios would like to see more women emulate them. "There are over 2,100 franchise companies throughout the United States," she says. "Of that number, just over 50 are founded and owned by women." The International Franchise Association (IFA), based in Washington, D.C., lists 28 women-owned franchise companies among its 929 members.

According to WIF's Kezios, there are three reasons why women have yet to go into franchising in significant numbers: lack of information, lack of access to capital, and an unwillingness to give up control of the businesses they have founded.

Lack of knowledge about franchising was widespread among the women who attended her training seminars in the late 1980s, Kezios says. "These women were saying, 'So that's how you do it.'"

Finding money to buy a franchise or expand a business into franchising continues to be a challenge for women. For would-be franchisees, borrowing small amounts of money—\$50,000 or less—to

buy an inexpensive franchise is tough, says Kezios. "Banks still don't want to lend small bits of money," she says.

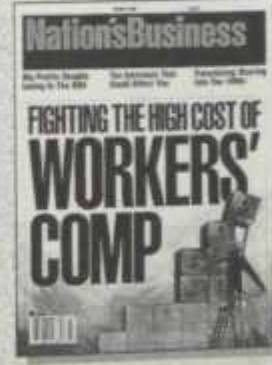
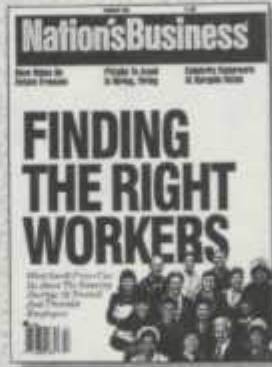
The issue of control is a big problem for women who could expand their existing businesses through franchising, says Kezios. "They fought hard to get their business off the ground, and many are reluctant to give an inch even if it means growth and future profit."

Kezios advises the potential franchisor to make sure she has a profitable prototype first. The business must be simple enough to be taught to people unfamiliar with the product or service. "It can't be brain surgery," Kezios says.

Once a woman decides to franchise her company, Kezios tells them: "You are now in the business of franchising, and your franchisees perform the day-to-day operation of your product or service business." And that means giving up some control.

Today, when women ask her why they should think about franchising the businesses they have founded, Kezios says, "Because that's where the wealth is."

Important Issues...



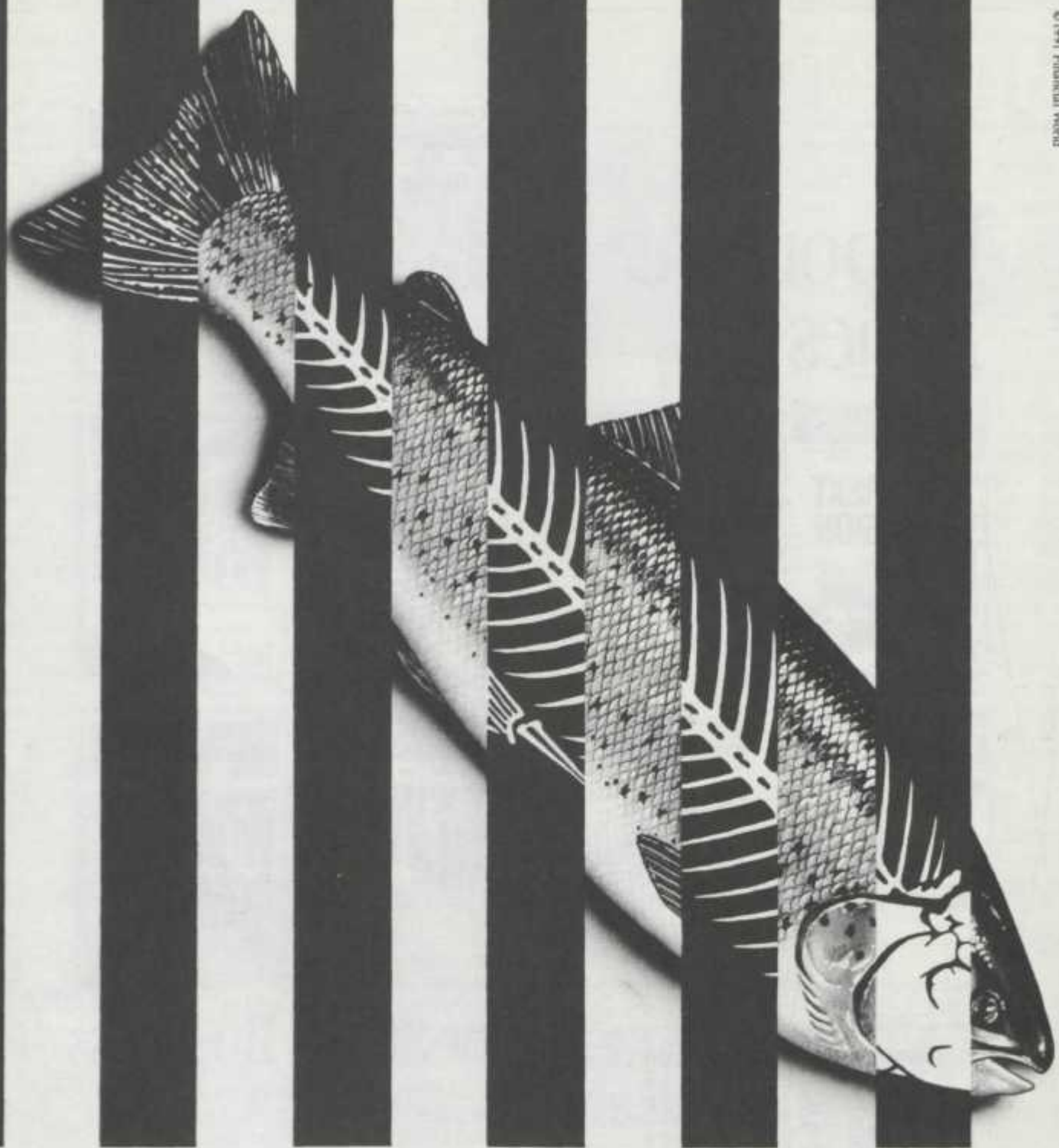
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READING BETWEEN THE LINES

that women-owned businesses "are somewhat more likely to be stable and a little less likely to demonstrate high growth" than other companies. But author Joline Godfrey writes that "women are placed in an impossible bind. They must prove themselves in the marketplace before being 'worthy' of capital but must prove themselves without the capital needed to show aggressive growth."

An area where there is virtually no sign of progress is federal procurement. Women currently receive only about 1.2 percent of federal prime contracts, up from only 1.1 percent in 1990. Clearly, an SBA goal to increase that participation to 5 percent by next year will not be met. However, the federal government is beginning to collect data on women's participation in subcontracting, and initial figures are expected to be available this year.

The lack of data on women's business ownership continues to be a sore point. The National Association of Women Business Owners and others contend that women-owned businesses are undercounted. The most reliable data have come from the U.S. Census Bureau's Economic Censuses, but these do not include regular C corporations. Furthermore, the Economic Censuses are conducted only every five years, and it takes an additional three years before the figures are analyzed and released.

The NFWBO study, released in March, is an effort to fill the gap. NFWBO, the Washington-based research and education arm of the National Association of Women Business Owners, has joined forces with the well-known economic researcher David L. Birch of Cognetics, Inc., in Cambridge, Mass., to create a database of more than 673,000 women-owned businesses. They say their data includes 11,000 C corporations not previously counted in federal government surveys.

Titled Women-Owned Businesses: The New Economic Force, the NFWBO report offers some new perspectives. It predicts that this year, women-owned firms will surpass the Fortune 500 firms in providing jobs. According to the study, Fortune 500 firms provided 12.3 million jobs in 1990 and are losing jobs at a rate of 200,000 to 300,000 a year.

While it is frequently said that women are concentrated in the service and retail industries, NFWBO points out this is true of *all* businesses, not just women's businesses. The fact that 91 percent of women-owned businesses have less than \$1 million in annual revenues mirrors the fact that nearly 86 percent of all businesses bring in less than \$1 million annually. Most women-owned firms—like most other businesses—have fewer than 20 employees.

Furthermore, the report contends,

The Hard Road To High Tech

By Ripley Hotch

The shortage of women entrepreneurs in high technology is noticeable.

"We have a group in San Diego called the Athena Group, made up of female executives in high technology," says Pamela Coker, president of Acucobol, a 3-year-old software company with 45 employees. While there are more than 25 executives in the group, only two are company presidents, according to Coker.



Pioneer Theresa Myers founded a \$50-million-a-year software company.

Yet, as in other fields, the "glass ceiling" that prevents women from rising to senior levels in corporations should encourage women in technology to start businesses of their own. Entrepreneurship offers "a good way for women to create a place for themselves," says Judith Clark Burton, founder of The Burton Group, a Salt Lake City consulting company that specializes in linking office computers together in networks. Burton was also one of the founders of Novell, Inc., the largest networking software company in the world.

Three obstacles stand in the way of women's entrepreneurship in technology. One is the small number of women who are experienced in the field; women traditionally have not been encouraged to enter engineering and science.

"If women are smart or have an idea, they're more accepted in technology fields. But you need to have experience," says Theresa Myers, a pioneer among women high-tech entrepreneurs. She is the founder, president, and CEO of Quarterdeck Office Systems, Inc., in Santa Monica, Calif. Myers' company is 10 years old (ancient for software firms), and she

has been in the field since the late '60s. Quarterdeck's Desqview products were the first to let personal computers juggle a number of programs at once, and they have been on computer best-seller lists for years. The company reached almost \$50 million in annual sales last year.

A recent study by Ellen Spertus for the MIT Artificial Technology Laboratory concludes that the percentage of female computer-science students is increasing slowly. Her report attributes the slow growth not to discrimination but to "subconscious behavior" on the part of men and women that perpetuates assumptions that women somehow do not have the aptitude or capability to compete in mathematics and science.

Last December, in Arlington, Texas, education experts at a hearing of the National Women's Business Council said that early in childhood, girls veer from math and science because of parental expectations, the educational system, or counseling.

"The shrinking pool of engineering and science graduates contains a small percentage of women not because they are discouraged by the universities but because their interest [has] been stifled long before," according to the NWBC's 1991 report to the president and Congress.

A second obstacle for women, related to the first, is the lack of a network of contacts and support. As in a chicken-and-egg dilemma, the number of women in technology has not increased to the point that would enable them to help other women, and therefore it is difficult for them to achieve that critical mass.

One effort to overcome the limitation is an on-line computer forum, SYSTERS, for women in high technology. Anita Borg, a consultant engineer for Digital Equipment Corp.'s Western Research Lab, in Palo Alto, Calif., manages SYSTERS and is creating a database of the 1,100 women in the high-technology network. Eventually she hopes to be able to extract useful statistics for distribution.

A third obstacle, not peculiar to women but falling heavily on them, is the cost of starting a business, and the consequent financial know-how that is required.

Nonetheless, says Judith Burton, "things have changed over the last 10 years; then, even though my credit was good, I was turned down flat by the bank. I think I could get what I need now. You have to know how to do it."

Because the barriers are so daunting, women entrepreneurs in technology demonstrate "a tenacity of purpose and a self-confidence that set them apart from the average business owner," says the NWBC report. The woman who succeeds in defeating the obstacles, the report continues, "is well-equipped to compete in the marketplace."

WOMEN IN BUSINESS



PHOTO: MICHAEL GREEN

Hedy Ratner, left, of the Women's Business Development Center in Chicago, visits a WBDC client, furrier **Pauline Burke**, right, and her assistant, **Tony Sulpoar**.

women are in business "for the long haul." While women-owned firms tend to be younger than other businesses, more than 40 percent of the companies in the NFWBO/Cognetics database have been in business for 12 years or more.

"It is imperative that the financial and government communities understand both the tremendous present economic contributions and future potential of women-owned businesses," says Gillian Rudd, NFWBO chair. "This research

provides the basis for the policies which will ensure that our national economy receives full benefit from these enterprises."

Women entrepreneurs themselves are seeing positive changes. Carolyn Dickson of Voice-Pro says there is less of a stigma attached to women operating businesses out of their homes. "Where they work is of no consequence as long as they can provide the service," she says.

Hedy Ratner at Chicago's Women's

Business Development Center says women tend to be more successful than men in starting businesses. Women take classes and attend workshops, and they are often "risk-averse," she explains.

"They are more likely to keep their expenses down and not need all the perks that men need as they go into business," she says. "They often start their businesses out of their home. Their operating costs are much less. They do much of the work themselves because they're capable of doing it, giving them an opportunity to hang in longer in an economy like today's."

They also show extraordinary tenacity. Pauline Burke, a WBDC client who designs and restyles old furs into new garments, expanded by opening a 10,000-square-foot retail salon on Chicago's Michigan Avenue 4½ years ago, boosting her revenues to \$550,000 a year from \$375,000. But two years ago, fur protesters were in high gear, and the economy began to slide. So did Burke's business.

Burke had to close her retail salon to cut her losses. She has since re-opened a small retail space that, with her re-design business, brings in revenues of about \$150,000. But she thinks she'll be up to \$500,000 in five years. "I see nothing but great growth in front of us," she says.

Even women who would rather stay small see growth as a necessity. Ellen Barrosse says she would have been satisfied to stop at six to 10 employees. But, she says, "there's no way for me to keep some of the dynamic people I have if I don't continue to grow the company to provide opportunities."

For More Information

Here are some sources of help for women business owners and aspiring entrepreneurs:

Starting And Managing A Business

■ The Women's Network for Entrepreneurial Training, sponsored by the Small Business Administration, matches inexperienced protégées with experienced women business owners. Call your local SBA office and ask for the women's business ownership representative.

■ SCORE offers counseling and workshops on how to start a business. Check your telephone book for Service Corps of Retired Executives, or call your nearest SBA office.

■ "Survival, the Challenge of the '90s" is the topic of the Sept. 17 annual conference of the Women's Business Development Center. Contact WBDC at 8 S. Michigan Ave., Suite 400, Chicago, Ill. 60603; (312) 853-3477.

Franchising

■ Women in Franchising, Inc., conducts seminars on franchising. Contact WIF at 175 W. Jackson, Suite A2116, Chicago, Ill. 60604; (312) 431-1467.

■ The International Franchise Association

offers trade shows and seminars. Write or call the Blenheim Group, 1133 Louisiana Ave., Suite 210, Winter Park, Fla. 32789; (407) 647-8521.

International Trade

■ "Women Going International" is an export-training program sponsored by the SBA. Contact your nearest SBA office and ask for the women's business owner-representative.

High Technology

■ SYSTERS is an on-line computer forum for women in high technology. Use SYSTERS-Request@wrldec.com, the Internet address, to gain access to the network.

Organizations

■ The National Association of Women Business Owners (NAWBO) has chapters in more than 40 cities. Contact NAWBO at 600 S. Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465.

■ The National Association for Female Executives each year co-sponsors a "New Business" contest and, under its Venture Capital Program, invests money in start-up companies based on business plans submitted by its members. Write or call NAFE at 127 W. 24th St., New York, N.Y. 10011; (212) 645-0770.

When women business owners talk about the future, they acknowledge the need to be more active politically so they can make a greater impact on public policy and can take greater advantage of opportunities. For example, Barrosse regrets not having gone to bat for her company when the Delaware Legislature made tax incentives and funding available to small businesses for the training of workers laid off by large corporations.

"It so happens that the kinds of businesses that received the most benefit from these kinds of funds are businesses that are classically owned and staffed by men," she says. She doesn't think the state intentionally left women business owners out, but women like herself didn't press for the funds.

Women in the 1970s and especially the 1980s learned in growing numbers how to start businesses. Now, in the 1990s, they are positioning themselves for the next century, learning how to grow their businesses and how to make their presence felt. As Joline Godfrey puts it: "It is time women entrepreneurs understood the mass they represent."

Both Sides Of The Media

By Richard Ott

Everyone wants publicity—that free exposure in the news, editorial, or noncommercial section of a media outlet's material. But some funny things can happen when you get it.

Unlike advertising, which the marketer controls, publicity is totally out of control. The publicity you were hoping for can be a line that doesn't even give your name—"a thousand dollars' worth of leisure wear was donated by a local merchant."

I'm often asked, "What can I do to get favorable publicity and prevent negative publicity?"

Let me first point out that I speak as a marketer, a consultant, and a former member of the media. I take no sides, but explain it from both sides.

First, you should understand why negative publicity exists as often as it does. Here are the reasons:

A media outlet may be uninformed or misinformed. A writer or reporter needs information, but it's not incumbent upon the media to seek favorable information about you; it's incumbent upon you to provide them with favorable information.

The marketer and the media have different, and often opposing, goals. The marketer is focused on getting favorable exposure, but the media couldn't care less about that. They want to disseminate information that (a) tells people something they don't already know, and (b) affects as many people as possible.

People see things differently. Why is it that two unbiased witnesses to the same automobile accident will tell totally conflicting accounts of what they saw? For the same reason that two or more reporters can cover the same story and write completely different accounts. Any reporter might do a story on your business that turns out to be opposite of how you or the next person would write about you.

A media outlet's angle may be opposite the marketer's angle. Let's say a reporter calls and wants to interview you. "Great," you think, "we could certainly use the publicity." You show the reporter around your restaurant and spend another hour answering questions in your

office while the photographer is snapping away all along. The article comes out, and all that great publicity you expected is nothing of the sort. The angle of the article is the health hazards of high-cholesterol restaurant food, and there's a photo of your cook pouring cheese over eggs with a caption that reads, "Patrons of restaurants like Joe's Eatery have no idea how much fat goes into their food."

Is it fair? Is it right?

That's debatable. Remember, the reporter's loyalty is to her employer, and the employer's (the media outlet's) loyalty is to its audience. Reporters have no loyalty or obligation to the person they're interviewing.

Great publicity is valuable. But it's iffy—you can't rely on it to be there when you need it. And it's usually not of the magnitude or sustainability needed to affect demand over the long run.

Publicity is a frill that's nice to have from time to time. There are some things you can do to foster positive and impede negative press. But going after publicity is like stepping up to the table and rolling the dice. You may win, and you may lose.

Here are some tips:

Don't do anything that warrants negative publicity. The higher your profile, the cleaner you need be.

Be honest with the media. Of course, you needn't volunteer negative information or tell tales out of school. It's OK to put your best foot forward. Just don't tell blatant lies. Remember, hell hath no fury like a reporter duped.

Keep the press informed. Ninety-nine percent of all news releases that reach an editor's desk go into the waste basket. But they are read. Send information to key reporters and editors on a regular basis. You never know when an interest will be sparked and a story will result.

Become a quotable source. Reporters quote knowledgeable people all the time. Part of the material you regularly send to the media should contain quotes from you that may be lifted and used as a writer sees fit. In time, they may call you and ask for your comments about the field in which you are known. One

Here are things you can do to foster positive press—and to prevent negative publicity.

media outlet sees you quoted in another, and soon you're a "source."

Submit material for publication. Write articles and/or submit photos. Many publications have regular columns set up to feature guest authors.

Avoid stunting. Publicity stunts are nothing but cheap attempts to get media attention just for the exposure. The media hate them and try to ignore them whenever possible.

Let bad publicity roll off your back. Sooner or later, you'll be hit by a negative story, if for no other reason than that you're visible. When that happens, go about business as usual. Avoid retaliating, although an unemotional letter correcting erroneous information may be appropriate. The same media outlet that burns you one day can embrace you the next.

And if you're not happy with the press you get, remember that reporters and writers come and go, and yesterday's news is ancient history. Don't prevent yourself from getting positive press in the future by going into a tyrannical rage every time a negative story comes out.

16



Excerpted from the book Creating Demand, by Richard Ott. Business One Irwin, 1991, \$27.50.

Richard Ott is president of the management consulting firm of Ott & Associates, based in Richmond, Va.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittmore

STOCK OFFERINGS

Going Public

I am a consumer, and I need help getting some basic information about initial public stock offerings.

D.H., Keene, N.H.

For a description of initial public offerings (IPOs) of stock, see "Initial Stock Issues Set Record Pace," in the cover package of the January 1992 *Nation's Business*.



Two other publications aimed at educating the consumer on IPOs are available from Standard & Poor's, the Wall Street stock-rating firm in New York, and from the Institute for Econometric Research.

Standard & Poor's publishes *Emerging and Special Situations*, a monthly newsletter giving a comprehensive review and rating of new stock issues and IPOs. A

subscription costs \$223.50 per year, with a three-month trial subscription available for \$48. Both are payable by major credit card. To order, call David Gill of Standard & Poor's at 1-800-221-5277.

Another monthly newsletter that covers new stock offerings is *New Issues*, published by the Institute for Econometric Research, in Fort Lauderdale, Fla.

Subscription rates, payable by major credit cards, are \$55 for six months and \$95 for one year. Call 1-800-327-6720 to order.

AVIAN RANCHING

Raising Ostriches

I am interested in the business of ostrich raising but don't know where to start. Are there sources of information available?

C.B.J., LaGrange, Ga.

(Similar questions from D.J.F., Appleton, Wis.; N.M., Marshville, N.C.; and T.F., Princeton, N.J.)

The American Ostrich Association has comprehensive information on raising ostriches and on starting an ostrich farm. The association's quarterly magazine contains information on membership, sources of ostrich eggs, and news on import regulations, upcoming seminars, and industry trends. For more information, write to Susan Cook Adkins, executive director of the American Ostrich Association, 3840 Hulen St., Fort Worth, Texas 76107.

RETAILING

It's In The Cards

I want to open a Hallmark card shop. Is it a franchise? Can you provide me with information on this?

T.Y., Sterling Heights, Mich.

(Similar questions from S.G., Pompton Lakes, N.J., and M.C., Phoenix, Ariz.)

Hallmark Cards, Inc., does not have franchises. Each store is privately owned and operated but works closely with the company's corporate office.

Hallmark says the corporate office gives advisory support to each store to ensure consistency of store design and products. The company also helps the independent owner with marketing advice and growth plans.

For a free packet of information, write or call Hallmark at P.O. Box 419580, Kansas City, Mo. 64141-6580; (816) 274-5111.

FINANCE

Checking A Bank's Health

Before I open my business account with a bank, is there any way that I can check up on its financial health?

S.W., Quincy, Mass.

If the bank has publicly traded stock, you can get an annual report from the banking company.

If the bank does not trade its stock publicly, you can enlist the services of a

QUESTION OF THE MONTH

Charity Starts At The Office

If you are thinking about instituting a charitable-giving program for you and your employees, you are not alone. Small-business owners are increasingly interested in embracing the financial, moral, and marketing benefits of involving their companies in charitable programs.

Philanthropic programs cover a wide range of possibilities—donation of money, products, or services or participation in volunteer programs through local religious groups and community centers.

The key to a successful charitable

program is organization, according to several philanthropy experts. They suggest that you give your employees a written, detailed description of the program along with forms on which they can state their name, amount donated, and their preferred charitable recipients. A written program also helps alert the charities to your company's specific guidelines for giving, the experts say, and it helps you keep records of your level of giving for tax purposes.

Philanthropy experts recommend that companies select one or two charities and focus their efforts on making a difference within those organizations. The company's financial donations then have more impact, and the business establishes an



affiliation with a specific charity.

An effective charitable-giving program can also be good for your company's

company that offers ratings on banks' consumer safety.

Veribanc, Inc., based in Wakefield, Mass., offers ratings over the phone on the more than 27,000 federally insured banks, savings and loan institutions, and



credit unions nationwide.

The cost is \$10 for the first bank rating and \$5 for each additional rating. The price increases to \$25 per bank for more-detailed reports.

Veribanc also publishes a quarterly newsletter, *The Banking Safety Digest*, which covers the banking industry in easy-to-understand terms. For more information, call 1-800-442-2657.

Weiss Research, in West Palm Beach, Fla., also rates the financial condition of banks.

The cost is \$15 per bank for ratings over the telephone and \$25 per bank for written reports. Call 1-800-289-9222 for more information.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have devel-

oped *The Small Business Resource Guide*, which contains answers to the questions we are asked most frequently. The booklet is available for \$5.95 a copy (plus \$1 for handling).

To order, send a check or money order to the Circulation Department at the address above.

image. The marketing aspects include getting your good works recognized by your customers and boosting your reputation in the communities in which you do business.

Think about offering your employees a matching-gift program in which your company matches each dollar donated by an employee, say philanthropy experts. The result can be increased contributions and enhanced employee satisfaction.

To receive a tax deduction for your donations, give to organizations that are registered with the Internal Revenue Service.

The Council on Foundations has a wide range of publications at varying prices on how to start a philanthropic program. It

INVESTIGATIVE SERVICES

An Eye For The Facts

I am very interested in starting my own private-investigation service and would like to know what qualifications and certifications are required.
A.R., Hurlburt Field, Fla.

Private investigators are licensed by the states in which they practice. The qualifications and certifications required for becoming a private investigator are covered in detail in accredited college courses in private investigation. You may contact individual schools for information about your state's requirements.

To find out which schools offer programs, see the *Directory of Educational Institutions*, published by the Association of Independent Colleges and Schools.

The directory is a comprehensive list of courses accredited by the association; it includes courses in private investigation.

The 1992 edition is available at most libraries or through the Association of Independent Colleges and Schools, 750 First Street, N.E., Suite 900, Washington, D.C. 20002; (202) 336-6700.

Another reference is *The Private Investigator's Basic Manual*, by Richard H. Alkin, available for \$26.50, plus \$3.50 shipping, from Charles C. Thomas Publishers, 2600 S. First St., Springfield, Ill. 62794-9265; (217) 789-8980. Checks and major credit cards are accepted.

For more information on the subject, write or call Thomas Publications, P.O. Box 33244, Austin, Texas 78764; (512) 832-0355.

also publishes *Foundation News*, a bi-monthly magazine that covers corporate and private foundations. The cost is \$29.50 per year. For more information, write or call the Council on Foundations at 1828 L Street, N.W., Suite 300, Washington, D.C. 20036; (202) 466-6512.

For information on seminars and publications on charitable giving, contact The Conference Board, 845 Third Ave., New York, N.Y. 10022; (212) 759-0900.

The Foundation Center gathers data on foundations and corporate-giving programs, and its publications detail various contribution programs. For more information, write or call the center at 79 Fifth Ave., New York, N.Y. 10003-3076; (212) 620-4230.

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To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Janet L. Willen

Catering To Business People With Special Dietary Needs

For most people, a catered lunch or dinner at a business meeting is a routine event. It can be a break from business pressures and a chance to meet colleagues and potential customers in a relaxed setting. Food is often incidental.

Yet for millions of people, a catered meal is a source of some trepidation.

digesting milk proteins. For them, milk products could cause stomach aches, hives, and runny eyes or noses.

By contrast, a food allergy has an immunological basis, says Dr. Donald Leung, head of pediatric allergy immunology at the National Center for Immunology and Respiratory Medicine, in Denver. The immune system, he says, responds to certain foreign substances—usually the proteins in the foods—as if they were

dietitian at the U.S. Department of Agriculture's Human Nutrition Research Center on Aging, at Tufts University. Rasmussen suggests such people determine the amounts that don't cause a reaction, through trial and error, and not eat or drink more than that.

Joan Eisenstodt, who runs a meeting-planning company based in Washington, D.C., says that before an event, people with dietary needs should find out what will be served, and they should not be shy about requesting specific foods.

Eisenstodt, who was named 1991-92 International Planner of the Year by the trade association Meeting Planners International, says caterers and meeting planners, too, should make an effort to find out what people need. Her registration forms include a line asking people if they have any dietary restrictions. "Most facilities can arrange fruit plates, fish, and vegetarian plates" if they're requested in advance, she says.

Donald Diorio, director of meeting operations at the American Management Association in New York, also asks participants about requirements. His literature states, "If you have special dietary needs, please let us know."

Reactions to problem foods are usually similar from one time to another, Leung says. They may vary in severity, though, depending on the quantity and combinations of foods eaten and other factors.

People with food intolerances usually can only wait out their adverse reactions, says dietitian Busch; no treatment is possible. But people with food allergies should be prepared to treat their symptoms, says Leung. Typical treatments are antihistamines, decongestants, and medication for stomach aches. Hypersensitive people may need adrenalin, so Leung advises that they carry some with them and wear Medic Alert bracelets.

Many meeting planners try to accommodate their guests by keeping meals simple. Stephen Hackett, who plans about 30 events a year as director of special activities for Century 21 Real Estate Corp. in Irvine, Calif., says he sticks with the basics in his menus—he usually orders beef or chicken.

As aware as meeting planners may be, the ultimate responsibility must remain with the guest. Says dietitian Rasmussen: "People with severe sensibilities have to learn to ask."



A catered meal: a treat for some but a source of trepidation for others.

These people have either food intolerances or food allergies, and a food that is harmless to most other people can cause them discomfort and, in rare cases, be fatal.

Approximately 2 percent of the population suffers from verifiable food intolerances or food allergies, says Felicia Busch, a registered dietitian and spokesperson for the American Dietetic Association. But, she says, a much larger percent believe they have problems with some foods and restrict their diets.

Busch says a food intolerance is an adverse reaction caused by eating certain foods in quantities above a threshold an individual can accept. Enzymatic deficiencies are among the most common causes of food intolerances. Lactose-intolerant people, for example, do not have the enzyme lactase, which is needed for

dangerous and tries to destroy them.

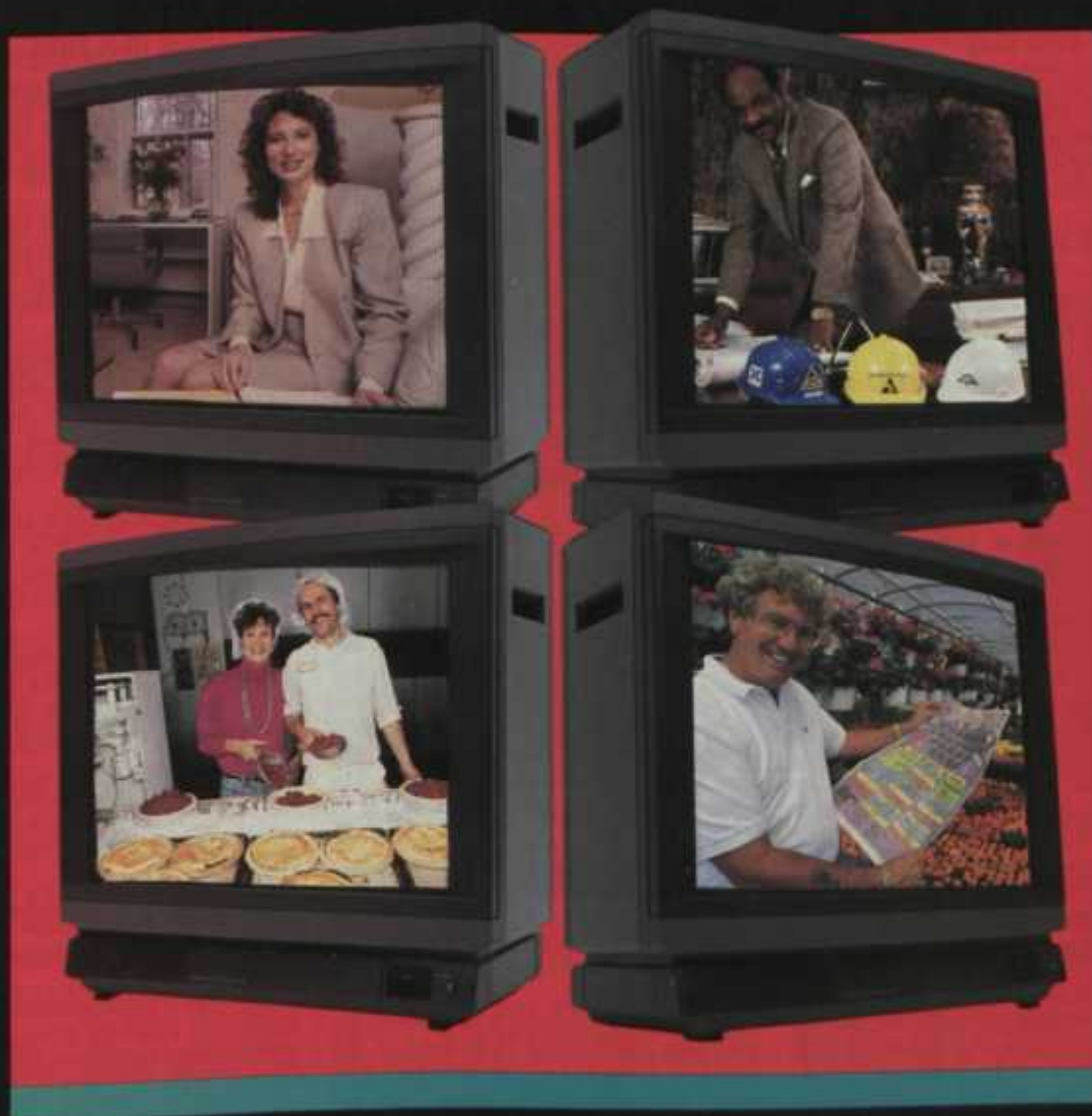
An estimated 1.2 million Americans are allergic to one or more foods, according to the American Academy of Allergy and Immunology, a Milwaukee-based society of allergists and immunologists. When allergic individuals eat a problem food, reactions can include upper-respiratory problems, hives or eczema, an upset stomach, an asthma attack, or even life-threatening anaphylactic shock.

Says Leung: "A person with a food allergy places himself at risk by eating a food if he doesn't know the contents." To be safe, he says, before attending a catered event, an allergic person should find out what food will be served, its ingredients, and how it will be prepared.

People with food intolerances often can tolerate a small amount of the problem food, says Helen Rasmussen, research

PHOTO: CHARLES FELL—UNIPHOTO

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For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

ESTATE TAXES

Where There's A Will—That's The Best Way

Does everyone need a will? Abraham Lincoln didn't think he did. Nor did a few other presidents (history doesn't tell us why), but their survivors might have been better off if there had been wills. Even a person with a small estate who dies without a will could subject the estate—and his or her heirs—to avoidable problems generated by states' laws of "intestacy"—dying without a will.

In addition, the estate of a person who dies without a will might not be distributed in the ways that the person might have intended. For example, Mr. Jones dies "intestate"; he is survived by a wife and two minor children, and he leaves \$900,000 worth of assets.

His state's laws of intestacy require that the wife receive half of the estate and the children receive the other half, which would be divided so that each child receives one-fourth.

If Mr. Jones had written a will, he could have set up a trust for his wife, allowing her to get all the income from his estate for her lifetime, with the balance to be divided among his children following his wife's death. Moreover, although there would have been no saving in estate taxes



A will, properly drawn, can save taxes for beneficiaries in the long run.

on the first estate, a properly drafted trust provision in Mr. Jones' will could have saved over \$85,000 in estate taxes on the second estate.

Some individuals don't care what happens to their estate after they die. But most do care, and for them a will is a must.

PROPERTY SALES

Home-Office Deductions Can Become Costly

A home office can produce attractive tax benefits if it meets certain tax-law qualifications. All the costs of maintaining that part of the home can be deducted, including depreciation, telephone, and utility costs.

But if the residence is sold, the home office can be a trap.

Normally, when a residence is sold and a new one is purchased within two years for a price at least as high as the proceeds of the sale, any tax on the sale will be

deferred. However, the tax-free roll-over provisions apply only to a principal residence and not to any part of a home used as a business office.

For example, consider a home in which one room constituting 10 percent of the floor area is used as a business office. The home was acquired 10 years ago for \$60,000 and is sold for \$250,000, and a new home is purchased for \$260,000. There is a gain of \$190,000 on the sale. The gain on the business portion amounts to \$19,000 (10 percent of \$190,000).

Although \$171,000 of the gain can be deferred, \$19,000 of the gain cannot, since it relates to business property; that amount will be taxable.

An owner who knows well in advance that the home will be sold should abandon the home office and stop taking deductions. A year or two of nonbusiness use should help establish that the space is residential, enabling the owner to roll over all proceeds from the sale tax-free and defer the entire gain.

CORPORATIONS

Shareholders' Agreements Keep Stock In A Firm

Many closely held corporations are set up rather informally. Often, no provision is made for the death of a shareholder, raising questions about what happens to the stock when one dies.

For example, could the stock end up in the wrong hands—a ne'er-do-well son, perhaps?

And what about the shareholder's estate?

The stock would be subject to estate taxes, but the estate might not have enough cash to pay the taxes, and the corporation or the other shareholders might not be able or willing to buy the stock.

The best approach is to sell the stock to the corporation, using a shareholders' agreement. The agreement would fix the purchase price and set out the timing and details of such a purchase.

If the shareholders believe that the corporation can pay for the stock out of its future earnings, then the corporation can issue its notes in payment of the purchase price.

Otherwise, insurance should be taken out by the corporation on the life of the shareholder in order to cover the buyout price.

Another advantage of a shareholders' agreement is that it helps establish the value of the stock for federal estate tax purposes.

Although it is not necessarily decisive, a reasonable purchase price in a binding shareholders' agreement has usually been allowed as the tax value in the estate.

However, amendments to the Revenue Code in 1990 made it somewhat more difficult to use the buyout price as the value of the stock for estate tax purposes. Now, the agreement must be shown to be comparable to other shareholders' agreements in the industry, and this could be difficult to show.

Although this new requirement doesn't apply for closely held corporations that had shareholders' agreements in effect before 1990, caution is advised if these old agreements are amended. An amendment could jeopardize the "grandfather" protection of the old provisions.

You should check with your tax lawyer before amending an old shareholders' agreement.



Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

AUTOMOBILES

Buying A Car Overseas Can Cut Travel Costs

European and Scandinavian manufacturers are offering all sorts of incentives to get you to buy one of their cars when you travel abroad this summer.

They want you to buy a car and drive it around on your vacation or business trip instead of going the rental route, which can cost hundreds of dollars a week for a deluxe model.

"There's lots of competition now," says Dana Martens, overseas-purchase specialist with Martens Volvo in the nation's capital, "because travelers don't want to pay those rental rates."

Some manufacturers, she says, will knock \$1,000 to \$2,000 off the price, pick up all the shipping and insurance charges, and even fly you from your European port of entry to the plant site to pick up your car.

How do you go about making an overseas purchase?

"It's simple," says Jim Boerger, a professional car buyer whose clients are individuals and small businesses in Fairfax, Va. "You find a dealer who has the kind of car you want and work out your deal ahead of time."

The most popular cars being purchased overseas, Boerger says, are those manufactured by Mercedes-Benz, BMW, Saab, and Volvo.

You have to be sure that the car you buy meets all American emission and safety standards. In the past, some "gray-market" cars that were not purchased through domestic dealers didn't meet American standards, and insurance companies refused to provide coverage for them.

While you're driving abroad, the manufacturer provides local plates and insurance coverage.

When you pick up your car at an American port of entry, your dealer can arrange to have your local plates and insurance ready for you.



Peter Weaver is a Washington-based columnist on personal finance.

MICROBUSINESSES

Co-op Offices Serve New Entrepreneurs

Let's say you want to start a small business or consulting service but don't like the idea of working at home with all the turmoil of kids, pets, and other domestic distractions.

What you'd like is your own furnished office complete with receptionist, secre-

and we're growing fast," Boores says.

For someone who can't—or doesn't want to—make a big investment in a new business, moving into a co-op office makes a lot of sense. You get a modern, furnished space and can pick a leasing period of as little as three months or as long as two years.

"You don't have to hire people," Boores says, "and be saddled with phone instal-



Co-op offices, where several businesses share the costs of support staff and business machines, can be a good alternative to working at the dining-room table.

tary, computer, laser printer, fax, and copy machine, plus all the other perks that go with being an "executive."

But if you can't afford a long-term lease, not to mention the capital expenditure needed to furnish an office and hire some help, then you should consider a co-op office.

Using pooled resources, co-op offices can supply all the space, equipment, and secretarial help you need for a fraction of what it would cost you on your own.

The co-op office industry has emerged to serve budding entrepreneurs, consultants, and others who need first-class offices but are restricted by shoestring budgets.

"It's a good alternative to working off your dining room table," says Jane Boores, executive director of Dallas-based Executive Suite Network, the co-op office industry association.

A decade ago, there were just a handful of these co-op offices sprinkled around the country. "Now we have more than 3,500,

lations, wages, withholding taxes, medical benefits, and all the hassle that goes with opening your own office."

And you have access to the latest fax machines, copy machines, and other equipment on a pay-as-you-go basis. Many co-op offices even offer free coffee, tea, and do-it-yourself cafeteria service.

A major plus is the fact that telephone calls can be screened by a receptionist. You can call in for messages and leave messages for people whose calls you expect.

In many co-op offices, you encounter a spirit of camaraderie. All are in the same boat, trying to build and maintain their own small businesses. You might find someone down the hall who could use your product or service or has something you need.

Executive Suite Network offers a free membership directory as well as a start-up guide that lists co-op offices' addresses, services, and perks, state by state. Call 1-800-237-4741.

Business Class: A Middle Ground In The Air

With a nod to the members of their frequent-flier clubs, the major domestic airlines have added a business class on transcontinental flights to go along with coach and first class.

Frequent fliers were grumbling because they often had difficulty using their upgrade coupons to get into the first-class sections. First class was always sold out.

Now there are a lot of openings in business class to handle the frequent-flier upgrades and other travelers who prefer something better than full-fare coach. "For just \$20 or so more than full-fare coach," says Randy Petersen, editor of *Inside Flyer* magazine, "you can get a business-class, two-abreast, leather seat with more leg room, free drinks, and more personal service."

With a frequent-flier upgrade, you can move up only one class. It used to be coach to first class on transcontinental flights,



PHOTO: SUZIE PERGANDER/IMPHOTO

Some airlines offer business class to keep frequent fliers and other travelers happy.

Now it's coach to business. "If you still want to upgrade to first-class transcontinental the way you used to," Petersen says, "you have to make a hub connection

through Dallas, Chicago, Denver, St. Louis, or Atlanta." These shorter-leg flights generally still have only two sections—coach and first class.

HOME ECONOMICS

Grown Children Show You Can Go Home Again

The combination of the recession and ever-higher divorce rates is forcing more young adults, some with their own children, to move back into their parents' homes to get support for a fresh start.

Aside from the possibility that it will disturb the tranquility of what had been an empty nest, the move back home can present some sticky legal and financial problems.

"For one thing," says Sandy DeMent, an attorney with Lawphone legal services in Lanham, Md., "you might need a special power of attorney or legal-guardian papers to make important decisions involving your grandchildren."

For example, let's say your daughter or son is away for the weekend and your grandchild falls and breaks an arm or leg. You rush the youngster to the nearest hospital emergency room. "Then the problems start," says DeMent, "because they won't admit the child unless you have a legal document stating you can make medical decisions when the parents are absent."

You can't provide any medical care or enroll a grandchild in a day school or any other school without special authorization by the parents.

If the parents are away for long periods of time, DeMent says, "it might be better to have guardianship papers that give you broad powers to control all sorts of decisions involving the child."

In general, DeMent says, you are not responsible for your adult children's debts or liability claims while they are living with you as long as they have reached the age of majority in your state; the age of attaining full legal rights is

usually 18 to 21 but can depend on where you live.

An important exception: Don't co-sign a car loan or any other loan for your adult child unless you fully understand that you can be held directly responsible for the debt involved and any bad credit rating that might result from late or missed payments.

In most cases, says Barbara Taylor Burkett, consumer consultant for the Insurance Information Institute, in New York, "homeowner policies cover all family members, including adult children."

If, however, your son or daughter operates a small business in the home, such as baby-sitting, day care, or typing, your homeowner's policy might not cover the situation. Check with your insurer.

Some good news: Even if your son or daughter is living with you, he or she might qualify for a significant amount of financial aid to help pay for graduate or undergraduate college courses.

For federal and state aid, in most cases, only the son's or daughter's limited income and assets will be counted—not yours. This is because, technically speaking, these young adults are considered financially independent.

Divorce And Taxes

"One of the biggest mistakes divorcing couples make these days," says Joseph N. DuCanto, an attorney with the Chicago-based law firm of Schiller, DuCanto, and Fleck, "is not understanding the tax consequences involved in splitting up their income and assets."

For example, one partner might be giving up more than his or her fair share of highly appreciated assets, such as the home or securities, because the eventual

tax on the capital gain was not taken into consideration.

Decisions involving a mixture of alimony and child support are another area where things can go awry if tax consequences are not carefully sorted out.

According to the tax laws, alimony is a deductible expense for the spouse who pays it, and it is counted as taxable income for the spouse who receives it.

"In some cases, by cutting back or eliminating child support and providing more alimony," DuCanto says, "both partners can come out ahead financially."

As far as the family home is concerned, one option may be to let one partner continue to live there, instead of selling the place, and borrow money through a home-equity loan to provide additional income and a tax deduction on the interest paid.

Another consideration: "Through a little-known clause in the tax laws," DuCanto says, "spouses who are married to partners with certain types of retirement plans can get immediate access to benefits, without any early withdrawal penalty, as part of the settlement."

If substantial assets are involved, it's wise to find an attorney who is thoroughly versed in all the tax laws relating to divorces. "The best way to go about this," DuCanto says, "is to find out whether the attorney is a member of the American Academy of Matrimonial Lawyers." You may be able to get this information from one of the academy's regional chapters or your local bar association.

Another good resource is the *Best Lawyers in America* directory, published by Woodard/White. It contains state-by-state listings under various categories, including family law. Most major libraries have copies.



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Nation's Business
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Congressional Alert

A report on key legislative issues with suggestions for contacting Congress about them.

Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Time To Push Pension Changes

The tax bill passed by Congress in March was successfully vetoed by the president because of the damage it would have done to the already lagging economy. However, contained in that bill were some surprisingly constructive provisions to simplify the overly complex pension system.



ILLUSTRATIONS: RICHARD GAGE

Because Congress may reconsider pension simplification later this year, it is important for business people to tell their lawmakers now why such simplification is imperative, according to the U.S. Chamber of Commerce.

During the 1980s, Congress made substantial changes to the pension plan laws, creating a complex and costly system that was difficult for small businesses to administer. As a result, many small-business owners simply dropped pension plans altogether.

According to the U.S. Chamber, the pension proposal that was included in the now-defunct 1992 tax package had several positive features worth resurrecting. These would:

- Cut down on record keeping;
- Provide safe harbors for testing 401(k) defined-contribution savings plans;
- Allow nonprofit organizations to use 401(k) plans;
- Clarify the Internal Revenue Code's leased-employee rules to make it easier to administer 401(k) plans for such workers;
- Allow nearly all distributions to be moved to IRAs or other pension plans through the establishment of new rollover rules.

Although the Chamber supported these provisions, it opposed repeal of a rule that allows income averaging (over five years) in place of being taxed all at once when a pension is paid in a lump sum.

Still, the Chamber strongly supports efforts to improve the pension system.

Contact your senators and representative immediately and urge them to make pension simplification a priority this year.

Bill Would Expand FDA's Power

Sen. Edward M. Kennedy, D-Mass., and Rep. Henry A. Waxman, D-Calif., are pushing bills to grant the Food and Drug Administration sweeping new enforcement powers.

The legislation would affect the approximately 25 percent of businesses nationwide that are covered by the Federal Food, Drug, and Cosmetic Act.

The bills—S. 2135 in the Senate and H.R. 3642 in the House—would give FDA inspectors the power to probe and copy business records even for minor technical violations or perceived violations.

Inspectors would also have the authority to recall and embargo shipments of food, drugs, or medical/veterinary devices even when there is no public-health danger.

Moreover, under the bills, businesses would be subject to fines as high as \$1 million for potentially minor infractions that involve no health or safety violations.

The legislation would also authorize the FDA to promote rules that require businesses to keep any types of records or file any reports that the agency might deem appropriate.

The U.S. Chamber of Commerce opposes the legislation on the ground that the FDA already has some of the toughest enforcement powers among the federal agencies. More than 90,000 food, drug, and medical-device manufacturing and distribution facilities fall under its surveillance.

The agency monitors the manufacture, import, and sale of \$960 billion worth of products each year, and Americans spend 28 cents of every dollar on products regulated by FDA.

Contact your senators and representative, and urge them to oppose S. 2135/H.R. 3642. Remind them that the U.S. food and drug supply is the safest in the world and that additional regulatory burdens could add to regulatory costs while providing little, if any, corresponding benefit.



Unwarranted Regulations

Legislation has been introduced in the Senate to help prevent new unwarranted regulatory burdens on business.

The bill would require legislators and regulators to consider the full costs of new regulations and rules.

Introduced by Sens. Don Nickles, R-Okla., and Harry Reid, D-Nev., the Economic and Employment Impact Act would require an analysis of the impact that new federal laws would have on the economy and jobs.

Under the proposed measure, any new legislation would have to be accompanied by an estimate of its effects on employment, international competitiveness, and gross domestic product.

Former Office of Management and Budget economist Thomas Hopkins estimates that total federal regulation costs U.S. taxpayers and businesses more than \$400 billion annually. This translates into \$4,200 per household.

The combined cost of the 1990 Clean Air Act amendments and the Americans with Disabilities Act could be an additional \$40 billion to \$60 billion in 1992 alone.

Government regulation is a delicate balancing act between real costs and expected benefits.

According to the U.S. Chamber of Commerce, however, the scale has become tipped against business activity and economic growth.

The Chamber believes the Economic and Employment Impact Act would provide a measure of economic reason to a process that all too often fails to consider the substantial costs associated with federal regulations.

Contact your senators and representative today. Urge them to co-sponsor and support the Economic and Employment Impact Act, thus restoring a measure of balance to the federal regulatory process.



Editorial

"We Cannot Seem To Get It Together"

Members of Congress are desperately trying to counter the public outrage caused by recent developments on Capitol Hill.

For reasons ranging from bounced personal checks to inaction on national problems, the lawmakers are being assailed as unresponsive and irresponsible.

The incumbents say that their acts of commission and omission are being wildly exaggerated by opportunistic opponents and irresponsible media.

But the most perceptive analyses of what's wrong with Congress today come not from outside critics but from two of its most respected and influential members, Republican Sens. Warren Rudman of New Hampshire and Sen. John C. Danforth of Missouri.

Rudman commented on the workings of the legislative branch in announcing that he would not seek election to a third term. He is leaving, he said, because he has become terribly frustrated by Congress' failure to admit to the root cause of massive budget deficits—financially ruinous but politically popular entitlement programs.

"We are unable, institutionally, to do what has to be done," Rudman said. "We cannot seem to get it together."

His remarks were followed by a statement from Danforth, who cited widespread discontent among senators. Unhappiness with the rampant criticism was one factor, Danforth said, but he suggested that the chief reason is linked to profligate spending:

"I think the major cause is that deep down in our hearts we believe that we have been accomplices to doing something terrible and unforgivable to this wonderful country. Deep down in our hearts we know that we have bankrupted America and that we have given our children a legacy of bankruptcy."

Danforth told the Senate: "We have defrauded the country to get ourselves elected."

In reviewing his Senate career, Rudman recalled that one of the first votes he cast in 1981 was on raising the national debt to just over \$1 trillion. "That was the debt accumulated

from the time of the forming of the republic until 1981," he said. As he nears the end of his second term, Rudman noted that "the deficit for fiscal year 1992 alone will approach \$400 billion. And the national debt will rise to over \$4 trillion."

In 1980, Rudman continued, federally financed payments to individuals totaled \$278 billion. They will total \$730 billion this year and exceed \$1 trillion in 1997. These amounts are

spent for Social Security, Medicare, Medicaid, federal civilian and military retirement, and other entitlement programs.

They bear that label because the law says that all applicants who meet eligibility requirements are automatically entitled to the programs' benefits without regard to overall costs.

Danforth put it this way: "The problem is that we have hurt America—quite intentionally we have hurt

America for the purpose of getting ourselves elected. We have told Americans that . . . we can reduce taxes and we can increase benefits."

Although "the numbers do not add up," Danforth continued, "people want to believe that this is not a real problem."

The two senators are challenging not only their fellow members of Congress but also the American people.

The fundamental problem results from the idea, fostered by politicians and accepted by voters, that high benefits, low taxes, and deficit reduction are compatible.

The inherent conflicts are ignored: Continuing escalation of benefits means higher taxes or higher deficits. Curbing deficit spending or avoiding tax increases means restrictions on spending.

As Rudman says: "In what I regret to call a conspiracy of silence among all of the presidential candidates and most members of Congress, few of us are willing to talk about the real problem. Why? Because of the fear that, if you address the issues honestly, you will lose votes and possibly the elections."

Danforth expresses hope that "there will be a few of us who will be willing to tell the truth" and to force Congress into hard decisions, "even if we lose." He then poses the basic question that every member of Congress should answer this year and in future years:

"If we cannot get re-elected on such a basis, what is the point of serving?"



PHOTO: TERRY ASHE-FOLIO, INC.

Sen. Warren Rudman



PHOTO: EDANA WALKER-CLARK LIAISON

Sen. John C. Danforth

You can tell members of Congress what you want them to do about federal spending. Respond to the Where I Stand questions on Page 4.

Free-Spirited Enterprise

By Janet L. Willen

For Sale

Selling Space, of Manhattan Beach, Calif., makes manila file folders with salespeople in mind.

These SalesFolders are printed on all sides to let salespeople record pertinent information about clients and prospects.

The outer sides have blanks for information about the contact—such as preferences, instructions, and secretary's name—and about the account—such as buying-decision criteria and vendor now used. Inside, on both flaps, there is room for information on calls and visits to the contact—such as who was at the last meeting and what's the next step.

The folders are made to keep you organized even if you're not. Cost: \$34.95 per hundred. For more information, call (213) 546-1255.

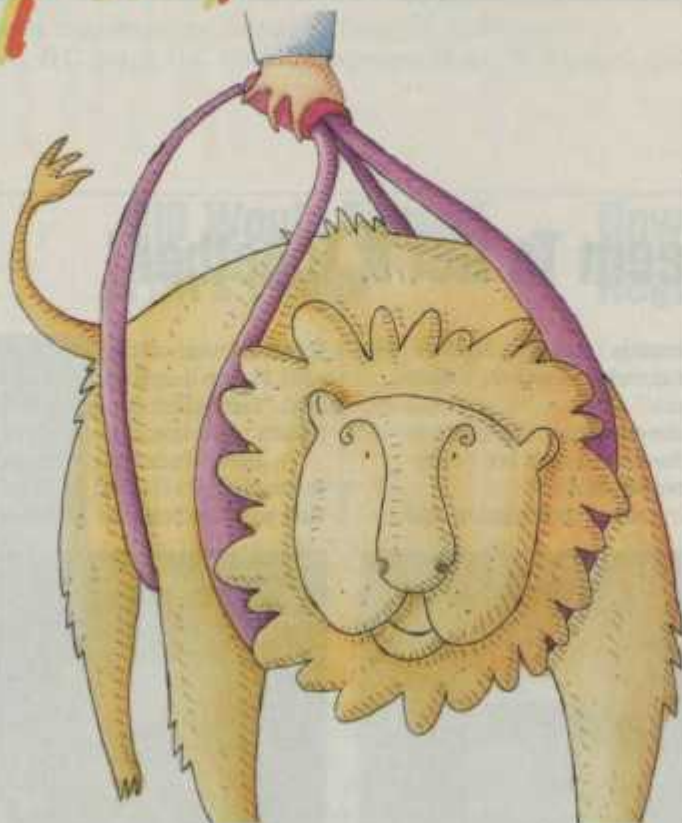


ILLUSTRATIONS: MANUEL KING

You Can Handle It

Anyone who has felt like a juggler trying to maneuver cartons, tubes, books, and envelopes from one site to another should take a look at the TransHandle 2100, from Habitec International, of Janesville, Wis.

This plastic handle has two 9-foot-long adjustable nylon straps that wrap around materials and hook back into the



handle to form a bundle that can be carried with one hand. The TransHandle weighs 8 ounces and can support up to 50 pounds.

It is available in bright red, electric blue, and teal green, and it costs \$19.95. For more information, call (608) 754-0505.

The Beauty Of The Earth

To get a new perspective on the changing world, take a look at the maps from Raven Press, of Medford, Ore.

"One World," a 35-by-63-inch map, gives three dramatic views of the globe. The vivid images are shown against a black background that enhances the bright colors of the world. Subtle gradations of blue give the illusion of depth to the waters.

From another angle, the map "World Cities At Night," a 25-by-38-inch spherical view of Earth, shows locations of 8,300 cities sparkling in the dark. Glistening white dots for the most-populated cities shine against the midnight-blue planet on a black background.

Closer to home, Raven offers maps of each of the 50 states as well as such spectacular maps as the luminous gray-on-black "Landforms and Drainage of the 48 States."

Each map is intricately detailed, with gradual shadings of colors to show changes in elevation. The precise tinting gives the maps a three-dimensional look. Don't be surprised if you think you can feel the snow-capped peaks of the Rockies.

Prices start at \$20. For more information, call 1-800-237-0798.

A Four-Wheeler

An institution from the sidewalks of New York is now a mainstay on the streets of Charlotte, N.C.

Jeffrey Cernuto, president of Unique Ink, Inc., adapted the Big Apple's stationary newsstands to comply with Charlotte's prohibitions on permanent side-

walk structures.

Cernuto runs his own kiosk, which he calls Newstand On Wheels, and sells the structures to other entrepreneurs. Cernuto wheels his own stand out to its sidewalk location each morning at 6, and he rolls it into storage each afternoon at 3.

He says the newsstands are lightweight, waterproof, mobile, and compact and can carry newspapers, magazines, beverages, cigarettes, lottery tickets, and photo-finishing information. Each stand also has space available for billboard advertising.

The newsstands are 4 feet wide, 6 feet long, and 7 feet high. Cernuto sells the stand itself for \$12,000. For an additional \$3,000, he provides help in obtaining licenses and contacts with suppliers.

For more information, call (704) 568-2535.



"The last thing I need is to spend my whole day fighting with a printer."



—David Berry, IPN, Ltd., Chicago, IL

"Especially when you're a small firm, you can't waste time hassling with your printer," said David Berry of IPN, which creates software for the legal profession. "We've found the HP LaserJet very reliable and trouble free. Most of our clients also prefer using HP LaserJets. It's the standard for our market."

When you're on a tight budget, the HP LaserJet IIP *plus* is the printer to put your money on. At just \$1,249* you get more than

great print quality, quick printing and quiet operation. You also get great HP reliability and exceptional customer support.

For example, the LaserJet Customer Assist Line is staffed with experts to advise you after the sale. They'll help you take full advantage of all the HP LaserJet printers' unique features and answer your hardware and software questions.



To learn more about the most affordable HP LaserJet printers—the IIP *plus* and IIP—call 1-800-LASERJET (1-800-527-3753), Ext. 3041 for a free video.

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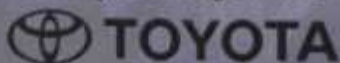
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PICKUP

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Powerful. Substantial. Tough. Hard-Working. Industrious. Durable. Authoritative. Capable. Mighty. Trustworthy. Rugged. Sturdy. Toyota One Ton Trucks inspire such images because they're loaded with a high level of standard features, like a 3.0-liter V6 150 horsepower engine with electronic fuel injection, plus a payload capacity of 2,610 lbs.* and towing capacity of 5,000 lbs.** But the strongest thing you can say about a Toyota is that its legendary reputation for reliability is tough to beat. And that's why Toyota One Ton owners also are described with some pretty potent words, like on-time, dependable and responsible. Call 1-800-GO-TOYOTA if you'd like a truck brochure or the location of your nearest dealer.

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